

Federal Housing Finance Agency  
Office of Inspector General



**FHFA's Division of Enterprise  
Regulation Substantially Adhered to  
its Rotation Policy for Examination  
Leader Assignments Despite Not  
Tracking Them Consistently**



COM-2022-007

July 11, 2022

## Executive Summary

Federal bank regulators recognize that effective supervision of a bank requires examiner independence. One control used by federal financial regulators to achieve examiner independence is mandatory rotation of certain examiners among supervised entities.

Since FHFA essentially equates its own supervisory authority to that of other federal bank regulators, in 2017 we compared FHFA's policies and practices on examiner rotation with those of other federal financial regulators. Our 2017 evaluation found no evidence that FHFA's Division of Enterprise Regulation (DER) had implemented any "meaningful" examiner rotation, even though DER's Deputy Director had pledged to do so sixteen months prior to the evaluation. DER could not explain the timeframe for its intended examiner rotation, whether it would rotate examiners across or within the Enterprises, or the types of examiners, if any, who would be rotated in addition to the examiners-in-charge (EICs).

In light of our 2017 findings, we recommended that FHFA:

- Develop, communicate to DER examination staff, and implement an examiner rotation practice or policy that explains the timeframe for examiner rotation, whether examiners would be rotated across or within Enterprises, and which types of examiners, in addition to the EICs, would be subject to the rotation practice or policy, and
- Direct DER to implement a mechanism to track and document over time DER examiner assignments by Enterprise and risk area to facilitate implementation of the examiner rotation practice or policy.

The Agency agreed with both recommendations. In response to our first recommendation, FHFA created a rotation policy that instituted target rotation timeframes for its EICs and managers (collectively, examination leaders). The policy states that an EIC should not serve for more than five consecutive years as a particular Enterprise's EIC or acting EIC. The policy also states that managers should not serve for more than six consecutive years as the manager or acting manager of any one branch (a.k.a. risk area) within DER's Offices of Fannie Mae Examinations or of Freddie Mac Examinations. We closed the first recommendation on September 15, 2017, based on DER's creation of this rotation policy.

DER subsequently represented to OIG that it had established the means to track an examination leader's rotation both by Enterprise and by risk area, and



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it provided a copy of a tracking spreadsheet on February 28, 2018. We closed the second recommendation on March 13, 2018, for these reasons.

We initiated this compliance review in February 2022 to determine whether DER tracked and rotated examination leader assignments from April 1, 2018, through December 31, 2021 (the review period). We found—and DER conceded—that it did not consistently track examination leader assignments during the review period. For this reason, we are re-opening our 2017 recommendation that DER track and document its examiners' assignments over time. In a written management response, the Agency agreed to address the re-opened recommendation. We will revisit this topic after an appropriate interval to assess whether DER has taken actions sufficient to close the recommendation.

Notwithstanding DER's inconsistent tracking of examination leader assignments, we found that, during the review period, DER substantially adhered to its rotation policy's target timeframes. Of the five examination leaders we identified who had tenures with the Agency that reached the target rotation timeframe during the review period, three of those personnel left their positions either by the target rotation timeframe or shortly thereafter. We also identified two examination leaders who, based on limited Agency records, appear to have left their positions before the target rotation timeframe.

This report was prepared by Karen Berry, Senior Investigative Counsel, and Alisa Davis, Senior Policy Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaog.gov](http://www.fhfaog.gov).

/s/

Brian W. Baker  
Deputy Inspector General,  
Compliance and Special Projects

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## ABBREVIATIONS .....

Agency or FHFA	Federal Housing Finance Agency
DBR	FHFA’s Division of Federal Home Loan Bank Regulation
DER	FHFA’s Division of Enterprise Regulation
EIC	Examiner-in-Charge
Examination Leaders	EICs and managers
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
OIG	FHFA’s Office of Inspector General
Review Period	April 1, 2018, through December 31, 2021
Rotation Policy	DER Operating Procedures Bulletin, <i>Staff Rotation within Enterprise Supervision</i> (issued February 24, 2020)

## BACKGROUND .....

### FHFA's Supervisory Authority

FHFA describes its supervisory authority over Fannie Mae, Freddie Mac, and the Federal Home Loan Banks as “virtually identical to—and clearly modeled on—Federal bank regulators’ supervision of banks.”

Federal bank regulators recognize that effective supervision of a bank requires examiner independence. One control used to achieve examiner independence is mandatory rotation of examiners among supervised entities. Such regulators also recognize other benefits that can arise from examiner rotation in addition to independence, such as enhancing examiners’ professional and leadership skills, and improving their abilities to conduct comparisons among institutions and to apply regulatory standards consistently.

### 2017 Evaluation of FHFA's Examiner Rotation Practices

Since FHFA equates its own supervisory authority to that of other federal bank regulators, in 2017 we compared FHFA’s policies and practices on examiner rotation to those of the Office of the Comptroller of the Currency, the Federal Reserve Board of Governors, and the Federal Deposit Insurance Corporation. Officials from FHFA’s Division of Federal Home Loan Bank Regulation (DBR) reported, and our testing confirmed, that DBR rotated its examination teams to preserve examiner independence. However, we found no evidence that DER had implemented any “meaningful” examiner rotation, even though our evaluation occurred sixteen months after DER’s Deputy Director had pledged to do so. No DER official with whom we spoke could explain the timeframe for DER’s intended examiner rotation, whether examiners would be rotated across or within the Enterprises, or the types of examiners, if any, who would be subject to DER’s announced “meaningful” rotation in addition to the EICs.

In light of our findings, we recommended that FHFA “[d]evelop, communicate to DER examination staff, and implement an examiner rotation practice or policy that explains the timeframe for examiner rotation, whether examiners would be rotated across or within Enterprises, and which types of examiners, in addition to the EICs, would be subject to the rotation practice or policy.” We also recommended that FHFA “[d]irect DER to implement a mechanism to track and document over time DER examiner assignments by Enterprise and risk area to facilitate implementation of the examiner rotation practice or policy.” The Agency agreed with both recommendations.

On June 21, 2017, DER issued a rotation policy outlining the target rotation timeframes for EICs and managers (examination leaders).<sup>1</sup> The policy provides that:

- (1) An individual **should not** serve for more than five consecutive years as a particular Enterprise’s EIC or acting EIC;
- (2) If someone serves for five years as a particular Enterprise’s EIC or acting EIC, that person **should** be assigned elsewhere for at least three years before resuming work as that same Enterprise’s EIC or acting EIC; and
- (3) An individual **should not** serve for more than six consecutive years as the manager or acting manager of any one branch (risk area) within DER’s Office of Fannie Mae Examinations or within DER’s Office of Freddie Mac Examinations.<sup>2</sup> (emphasis added to all)

The rotation policy did not unequivocally require rotations according to these timeframes, but it did establish them as targets. As DER noted in the policy, examiner rotation supports “maintaining a strong and independent examination team and fostering staff development.” Based on the creation of this rotation policy, we closed the first recommendation on September 15, 2017.

DER subsequently represented to OIG that it had established the means to track an examination leader’s rotation both by Enterprise and by examination risk area, and it provided to OIG a copy of a tracking spreadsheet on February 28, 2018. The tracking spreadsheet included the names of the examination leaders, along with the incumbents’ start dates and target rotation dates. When applying the rotation policy, DER calculated each individual’s target rotation date based on their start dates, even if those start dates preceded DER’s issuance of the 2017 rotation policy. We closed the second recommendation on March 13, 2018, based on DER’s new tracking spreadsheet.

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<sup>1</sup> DER-OPB-06.3, *Staff Rotation Within Enterprise Supervision* (June 21, 2017) (emphasis added). DER administratively re-issued the rotation policy on February 24, 2020, with no content changes.

<sup>2</sup> DER examination teams are divided among several branches that generally align with the examination risk areas: governance, market, model, operational, and credit. In practice, a manager could be responsible for overseeing credit risk at Fannie Mae. Under the rotation policy, after no more than six years, that manager should rotate to oversee another risk area for Fannie Mae or any of the risk areas for Freddie Mac.

## FINDINGS .....

We initiated this compliance review in February 2022 to determine whether DER had tracked and rotated examination leader assignments from April 1, 2018, through December 31, 2021 (the review period). We found that DER did not consistently track examination leader assignments as it had pledged to do. Notwithstanding this deficiency, we also found that of the five examination leaders who had tenures with the Agency that reached the target rotation timeframe during the review period, three of them departed those positions either by the target rotation timeframe or shortly thereafter. Another two examination leaders appear, based on limited Agency records, to have also left their positions by the target rotation timeframe.

### **DER Did Not Track Examination Leader Assignments Consistently**

DER has acknowledged that it did not track examination leader assignments consistently during our review period. DER’s current Deputy Director, who assumed that position in September 2021, stated that the division had not consistently tracked examination leader assignments to facilitate rotations. We found that DER conducted a single “ad hoc” review of examination assignments in 2019 at the request of the DER Deputy Director at the time. DER provided no evidence that it tracked examination leader assignments against the rotation policy’s target timeframes in 2020 and 2021. In March 2022, after we announced our compliance review, DER created a new version of its assignment tracking spreadsheet, and reviewed its records related to examination leader assignments.

### **DER Rotated Most Rotation-Eligible Examination Leaders in a Timely Manner**

We sought to verify whether DER had rotated examination leaders in accordance with the rotation policy’s target timeframes. Considering DER’s acknowledgement that it had not tracked examiner assignments consistently, we asked whether DER officials had nevertheless adhered to the rotation policy. The Deputy Director said that while DER had “slipped” in updating the tracking spreadsheet, he knew that the division had rotated individuals in accordance with the rotation policy’s target timeframes because of the magnitude of personnel changes and turnover in DER since 2018.

To test DER’s adherence to the policy, we obtained and reviewed a listing of DER personnel who had served as examination leaders during our review period, their specific Enterprise and risk area assignments, their start dates in those positions, and the dates on which they had rotated to different positions, if applicable.

Our review found inconsistencies in the information the Agency provided to us, particularly with respect to examination leaders’ start dates. However, using a combination of FHFA data



and organization charts to complete our testing,<sup>3</sup> we identified five examination leaders whose tenures with FHFA reached their target timeframes during the review period, and three of those examination leaders departed their positions by the target rotation timeframe or potentially one to two months thereafter. We also identified two of the five examination leaders who, based on limited Agency records, appear to have left their positions by the target rotation timeframe.

## CONCLUSIONS .....

DER did not consistently track examination leader rotations during the review period, which necessitates the re-opening of our second 2017 recommendation. During this review, DER’s Deputy Director stated that he made organizational adjustments to better track examiner leader assignments. He also said that the tracking spreadsheet should be updated at the time of a rotation or at least annually, and that any future exceptions to the rotation policy will be documented, along with the basis for each exception. We will revisit DER’s tracking after an appropriate interval to assess whether these steps—and any others DER might take in response to this compliance review—are sufficient to address the recommendation, and therefore, whether it may be closed.

Despite its failure to track examination leader assignments consistently, DER substantially adhered to its rotation policy’s non-mandatory target timeframes during the review period. We identified personnel in three of the five positions at issue departing those positions either by the target rotation timeframe or shortly afterwards. Limited Agency records appear to indicate that the other two examination leaders left their positions by the target rotation timeframe as well.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA management an opportunity to respond to a draft of this report. The Agency provided a written management response, which is included as an Appendix to this report. In its management response, FHFA agreed with our recommendation. The Agency

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<sup>3</sup> FHFA’s Office of Human Resources Management reported that it could not readily provide risk area assignments and corresponding start dates prior to May 17, 2015, for DER examination leaders because of a system limitation that purportedly did not capture such detail. This impacted our data about the start date for 5 of the 20 examination leaders covered by the review period. To mitigate the information gap caused by this OHRM system limitation, we used historical DER organization charts to determine the approximate start dates and risk area assignments for these five examination leaders.

committed to create a tracking report by November 30, 2022, which it plans to update annually.

## OBJECTIVE, SCOPE, AND METHODOLOGY .....

We initiated this compliance review in February 2022 to determine whether DER had continued to track and rotate examination leader assignments from April 1, 2018, through December 31, 2021.

To accomplish our objective, we reviewed Agency documents, human resources data, and organization charts. We interviewed DER and human resources officials as well.

To determine whether DER adhered to its rotation policy, we calculated tenures for the 20 examination leaders they identified as serving during our review period based on start dates provided by FHFA or start dates derived from historical organization charts. We then compared the tenures to the target rotation timeframes in DER’s rotation policy.<sup>4</sup> We identified 5 of the 20 examination leaders who had overall tenures that would trigger the target rotation timeframe. We then reviewed human resources data to assess if each of those five personnel occupied an examination leadership position for longer than the target rotation timeframe.

We conducted our compliance review from February 2022 through May 2022 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (December 2020), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

We provided a draft of this report to FHFA for its review and comment.

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<sup>4</sup> DER’s rotation policy is silent on different human resources actions that could affect the calculation of examination leaders’ tenure against the target rotation timeframe. DER takes the position that an examination leader’s assignment to a particular position ends not only when that person is officially rotated to a different position, but also if the person is detailed or reassigned to a different job—even temporarily—or upon DER’s implementation of “certain organizational realignments” if they would impact that position.

# APPENDIX: FHFA MANAGEMENT RESPONSE.....



## Federal Housing Finance Agency

### MEMORANDUM

TO: Brian W. Baker, Deputy Inspector General, Compliance and Special Projects

FROM: Andre D. Galeano, Deputy Director, Division of Enterprise Regulation (DER) ANDRE GALEANO Digitally signed by ANDRE GALEANO Date: 2022.07.06 10:43:12 -0400

SUBJECT: Draft OIG Report: *FHFA's Division of Enterprise Regulation Substantially Adhered to its Rotation Policy for Examination Leader Assignments Despite Not Tracking Them Consistently*

DATE: July 6, 2022

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Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report referenced above. The objective of the OIG's compliance review was to determine whether DER had continued to track and rotate examination leader assignments from April 1, 2018, through December 31, 2021.

The Report concludes that while DER substantially adhered to its rotation policy's non-mandatory target timeframes during the review period, DER did not consistently track examination leader rotations during this timeframe. As a result, the OIG is re-opening their recommendation for DER to "implement a mechanism to track and document over time DER examiner assignments by Enterprise and risk area to facilitate implementation of the examiner rotation practice policy."

By November 30, 2022, DER will create a tracking report that lists all current Examination Managers and Examiners-in-Charge and their start dates, end dates, and mandatory rotation dates. DER will also implement a control to ensure that the tracking report is updated and reviewed on an annual basis. DER will work closely with the Office of Human Resources Management to ensure the accuracy of the rotation dates.

We appreciate the professionalism and courtesy of the OIG staff who conducted this compliance review. We find the results valuable and take this matter and the Report's conclusions seriously. If you have any questions related to our response, please do not hesitate to contact Eric Wilson.

cc: Edom Aweke  
John Major  
Eric Wilson

## ADDITIONAL INFORMATION AND COPIES.....

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