

Federal Housing Finance Agency
Office of Inspector General



FHFA Completed All Planned Ongoing Monitoring Activities for Fannie Mae and CSS During the 2022 Examination Cycle

Compliance Review • COM-2024-002 • January 10, 2024



COM-2024-002

January 10,
2024

Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) is both the regulator and the conservator of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises), and their affiliate, Common Securitization Solutions, LLC (CSS). FHFA's Division of Enterprise Regulation (DER) is responsible for supervising the Enterprises and CSS.

DER's supervisory methods include the performance of ongoing monitoring (OM). During OM, DER examiners analyze real-time information to identify Enterprise practices or changes in an Enterprise's risk profile that may warrant supervisory attention, and also to assess the Enterprise's compliance with supervisory guidance.

In a 2020 audit, we sought to determine whether DER completed its planned OM activities for Fannie Mae and CSS for the 2019 examination cycle, and if not, whether DER documented properly any departures from its plans. We found that DER timely completed the majority of planned OM activities for both Fannie Mae and CSS. However, it delayed some OM activities without proper justification, and cancelled others in a manner inconsistent with DER requirements (e.g., the Deputy Director of DER did not approve the cancellation or the cancellation was not risk-based).

In response to our recommended corrective actions, FHFA issued an Operating Procedures Bulletin (OPB), *Supervisory Planning-Pilot Program for 2021*, setting forth the process and documentation requirements for planning DER's 2022 supervisory cycle. The OPB described which types of changes to planned examination activities could be approved by the Examiner-in-Charge (EIC) and which required the Deputy Director's approval. We closed the recommendations on September 30, 2021, based upon FHFA's corrective actions.

We initiated this compliance review to assess whether, during the 2022 examination cycle (the review period): (1) DER carried out its planned OM activities for Fannie Mae and CSS as scheduled; and (2) for any activities that were canceled, amended, delayed, or deferred, the change was approved at the appropriate level and documented pursuant to applicable guidance. We found that DER completed all planned OM activities for Fannie Mae and CSS as scheduled during the review period. Because no activities were canceled, amended, delayed, or deferred, we did not assess compliance with the guidance relevant to required approvals and documentation.



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This report was prepared by Karen Van Horn, Senior Investigative Counsel, and Patrice Wilson, Senior Investigative Evaluator. 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.fhfaoig.gov.

/s/

Brian W. Baker
Deputy Inspector General
Office of Compliance

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ABBREVIATIONS

CSS	Common Securitization Solutions, LLC
DER	FHFA Division of Enterprise Regulation
EIC	Examiner-in-Charge
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
OIG	FHFA Office of Inspector General
OM	Ongoing Monitoring
OPB	Operating Procedures Bulletin
Review Period	DER's 2022 Examination Cycle
ROE	Report of Examination

BACKGROUND

DER's Examination Activities Include Ongoing Monitoring

Under the Housing and Economic Recovery Act of 2008, FHFA serves as both the Enterprises' regulator and conservator. CSS is an affiliate of the Enterprises and falls under FHFA's supervisory authority. The Agency's mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities so that they serve as reliable sources of liquidity and funding for housing finance and community investment. To this end, FHFA reports that it uses a risk-based approach to examinations, prioritizing examination activities based on the assessed risk of a given practice to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations.

DER is the FHFA component that supervises the Enterprises. DER's Deputy Director is responsible for providing management oversight, direction, and support for all of DER's examination activities, including the development of supervision findings and issuance of annual reports of examination (ROEs).¹ Examination activity at each Enterprise is led by an EIC and conducted by examination teams, in coordination with other subject matter experts. The EIC serves as the central point of contact for communication between DER and the particular Enterprise under examination, and is responsible for planning, executing, and documenting examination activities.

DER's examination activities include the performance of planned OM, in which examiners analyze real-time information to identify any Enterprise practices and changes in its risk profile that may warrant supervisory attention, as well as to determine the status of its compliance with supervisory guidance.² EICs and DER examination managers structure and assign OM responsibilities through the supervisory planning process. Typically, OM will cover an examined Enterprise's or CSS' corporate management activities as well as their activities related to governance, internal audit, and risk management for each area assigned through the supervisory planning process. OM may also involve the review of key Enterprise or CSS regulatory and external documents, reports, and data throughout the supervisory cycle.

¹ The annual ROE constitutes DER's "primary work product that communicates . . . the cumulative results of [DER's] supervisory activities conducted during the annual examination cycle." Such activities include but are not limited to the performance of OM. DER examiners summarize in each Enterprise's annual ROE their examination results, conclusions, findings, and supervisory concerns identified by or arising from the supervisory activities completed during the annual examination cycle.

² OM activities are one of two parts of the Agency's approach to its safety and soundness examinations, with the other being "targeted examinations." Targeted examinations are a deeper dive into a specific area within DER's purview. DER's targeted examinations are outside of this report's scope.

DER Did Not Meet Certain DER Requirements When Departing from Its Planned OM for Fannie Mae and CSS in 2019

In 2020, we conducted an audit to determine whether DER completed its planned OM activities for Fannie Mae and CSS for the 2019 examination cycle, and to the extent that it did–not, whether it documented properly any departures from its plans.³ We found that DER timely completed 33 (89%) of the 37 planned OM activities for Fannie Mae. Four (11%) of the planned OM activities were cancelled, with three (8%) of those activities being canceled in a manner inconsistent with DER requirements (either because the Deputy Director had not approved the cancellation or because the cancellation was not risk-based).

For CSS, DER timely completed 3 of 5 planned OM activities. One additional planned activity was completed after the examination cycle, while another activity was deferred. We found no documented risk-based reasons for the untimely completion of the first activity or for the deferral of the second; moreover, the Deputy Director had not approved either of these changes to the examination plan as required.

Deviations from DER requirements have implications for the rigor of FHFA’s supervision of the Enterprises and CSS. As we observed in the audit report,

[f]ailure to follow clear DER requirements (requiring a risk-based reason to change planned ongoing monitoring activities and written approval from the Deputy Director) creates the risk that the Deputy Director has not provided effective management oversight, direction, and support for all examination activity involving the Enterprise and CSS, including the development of supervision findings and issuance of the annual ROEs.

We recommended that FHFA:

1. Reinforce the requirement to EICs and examination managers that changes to an examination plan must be risk-based – changes in Enterprise business operations or risk exposures – and that resource constraints are not accepted reasons for such changes; and
2. Reinforce the requirement that any revisions to an examination plan must be approved in writing by the Deputy Director.

FHFA agreed with the recommendations.

³ We assessed DER’s OM activities for Freddie Mac for the 2019 examination cycle in a separate audit report.

FHFA’s Corrective Actions

By memorandum dated September 8, 2021, the Deputy Director reported that the Agency had taken the following corrective actions:

- On September 3, 2021, DER issued an OPB setting forth the process and documentation requirements for planning the 2022 supervisory cycle; the OPB included a statement emphasizing that examination plans must “be appropriately responsive to changes in the Enterprise’s business operations and risk profile” and delineating which types of changes in planned examination activities could be approved by EICs and which required the Deputy Director’s approval.
- That same month, DER reinforced its updated requirements relating to examination plan revisions by creating and providing training to examination managers and EICs.

Based on FHFA’s corrective actions, we closed the recommendations on September 30, 2021.

FINDINGS

We initiated this compliance review to assess whether, during the review period: (1) DER carried out its planned OM activities for Fannie Mae and CSS as scheduled; and (2) for any activities that were canceled, amended, delayed, or deferred, the change was approved at the appropriate level and documented pursuant to the OPB. To make these assessments, we reviewed documentation regarding OM activities that were scheduled to occur during the review period and interviewed DER officials. As detailed below, we found that DER completed all planned 2022 OM activities for Fannie Mae and CSS.

DER Completed All Planned 2022 OM Activities for Fannie Mae and CSS

DER’s 2022 examination plans for Fannie Mae and CSS identified 14 OM activities of Fannie Mae and 6 of CSS, for a total of 20 planned OM activities. We reviewed documentation for these 20 activities to determine whether each had been performed as planned and, if not, whether DER had documented any exceptions in accordance with the OPB. We found that during the review period, DER examiners completed all 20 planned OM activities.

Additionally, DER informed us, and our analysis confirmed, that no OM activities were canceled, amended, delayed, or deferred. As a result, we did not need to assess whether DER—had secured appropriate approval or produced the required documentation for any such changes.

CONCLUSIONS

During the review period, DER completed all planned ongoing monitoring activities reflected in the 2022 examination plans for Fannie Mae and CSS as scheduled. No activities were canceled, amended, delayed, or deferred.

FHFA COMMENTS AND OIG RESPONSE.....

We provided a draft of this report to FHFA for its review and comment. The Agency's comments are included in the Appendix to this report.

OBJECTIVE, SCOPE, AND METHODOLOGY

We initiated this compliance review in August 2023 to determine whether planned ongoing monitoring activities were carried out as scheduled during the 2022 examination cycle for Fannie Mae and CSS. If any activity had been canceled, amended, delayed, or deferred, we intended to determine whether the change was approved at the appropriate level (either the EIC or the Deputy Director) and whether it was documented pursuant to applicable guidance.

To accomplish these objectives, we obtained and reviewed Agency documentation including examination plans, electronic workflows, memoranda to file, and operating procedures bulletins. We also interviewed DER officials.

We conducted our compliance review from August 2023 through October 2023 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.

APPENDIX: FHFA MANAGEMENT RESPONSE.....

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Federal Housing Finance Agency

MEMORANDUM

TO: Brian W. Baker, Deputy Inspector General, Office of Compliance

FROM: Christopher Bosland, Acting Deputy Director, Division of Enterprise Regulation
(DER) CHRISTOPH ER BOSLAND

Digitally signed by
CHRISTOPHER BOSLAND
Date: 2023.12.12 08:27:43
-05'00'

SUBJECT: Draft OIG Report: *FHFA Completed All Planned Ongoing Monitoring Activities for Fannie Mae and CSS During the 2022 Examination Cycle*

DATE: December 12, 2023

Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report referenced above (Report). The objective of OIG's compliance review was to assess whether, during the 2022 examination cycle: (1) DER carried out its planned ongoing monitoring (OM) activities for Fannie Mae and Common Securitization Solutions, LLC (CSS) as scheduled; and (2) for any activities that were canceled, amended, delayed, or deferred, the change was approved at the appropriate level and documented pursuant to applicable guidance.

We are pleased that OIG concluded that DER completed all planned OM activities for Fannie Mae and CSS as scheduled during the review period, and believe the Report underscores the progress we continue to make in enhancing DER's supervision program.

We appreciate the professionalism and courtesy of the OIG staff who conducted this compliance review and thank you for your work to help improve DER's supervision program.

If you have any questions related to our response, please do not hesitate to contact Eric Wilson.

cc: John Major
Eric Wilson

ADDITIONAL INFORMATION AND COPIES.....

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