

Federal Housing Finance Agency
Office of Inspector General



Inspection: FHFA's Oversight of Enterprise Fraud Risk Management

This report contains redactions of information that is privileged or otherwise protected from disclosure under applicable law.

Inspection • COM-2024-005 • March 28, 2024



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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) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises). In these roles, FHFA is required by law to ensure the safe and sound operations of Fannie Mae and Freddie Mac. FHFA has recognized that effective fraud risk management by the Enterprises is essential to their safety and soundness.

In 2015, FHFA issued an advisory bulletin—which remains in effect—articulating multiple expectations for the Enterprises’ fraud risk management programs. These include, but are not limited to, expectations that the Enterprises will implement fraud risk management policies and controls and will conduct training for management and board members on fraud prevention.

Given FHFA’s statutory duty to ensure the Enterprises’ safe and sound operations, and its stated view that effective fraud risk management is essential for that purpose, this inspection assessed whether, during a specified review period, the Agency monitored the Enterprises’ efforts to comply with selected expectations from FHFA’s advisory bulletin.

We found that during the review period, the Agency conducted active oversight of both Enterprises’ fraud risk management programs, including examination activity pertaining to the selected fraud management expectations at issue. Further study would be required to assess such examination activity’s quality or depth, which were outside of this inspection’s scope.

This report was prepared by David M. Frost, Assistant Inspector General, 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.fhfa.ig.gov.

/s/

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
BSA	Bank Secrecy Act
OIG	FHFA Office of Inspector General
Review Period	January 1, 2020, through December 31, 2023

BACKGROUND

FHFA Has Communicated to the Enterprises Its Expectations Regarding Their Fraud Risk Management

In a 2015 advisory bulletin,¹ FHFA stated that “[e]ffective fraud risk management is essential to the safe and sound operations of the Enterprises.” The Agency cautioned that fraud could cause the Enterprises financial, operational, legal, or reputational harm.

To prevent such harm, the Agency, in its statutory role as Fannie Mae and Freddie Mac’s safety and soundness regulator, articulated a detailed set of expectations for the Enterprises’ fraud risk management activities. Among those are the following:

- Fraud risk should be included in the risk management policies that are approved by the board or a committee thereof. The policies should establish the Enterprise’s standards and reporting processes relating to fraud and possible fraud and designate the management official(s) responsible for the oversight of fraud risk management.
- Effective fraud risk management should include risk-based internal controls that are designed to prevent and deter fraud. Moreover, the Enterprises should have ongoing processes for: (A) performing assessments to identify risk of fraud; (B) evaluating the internal controls in place to mitigate that risk; and (C) periodically updating these risk assessments and then making associated changes to internal controls.
- Enterprises should implement effective risk-based processes to timely investigate potential fraud, and include procedures for reporting investigation findings regarding fraud or possible fraud in accordance with regulatory requirements and Enterprise policy.
- Enterprises should provide and document up-to-date fraud risk management training to members of the board and senior management.
- Enterprises should conduct regular independent testing in all their business lines to determine the overall adequacy and effectiveness of their fraud risk management.

¹ FHFA, Advisory Bulletin AB-2015-07, Fraud Risk Management.

FINDINGS

We initiated this inspection to determine whether the Agency has taken steps, through its examination activities, to oversee the Enterprises’ adherence to the selected expectations from the advisory bulletin listed above.² As detailed below, we found that during the review period, FHFA conducted examination activities to assess the Enterprises’ adherence to each of the selected advisory bulletin expectations.

FHFA Conducted Examination Activity on Enterprise Fraud Risk Management Policies and Internal Controls

One of the advisory bulletin expectations that we selected for this inspection was FHFA’s oversight of the Enterprises’ adherence to its expectation that “[f]raud risk should be included in the risk management policies that are approved by the board or a committee thereof.” In addition, we considered the Agency’s oversight of the Enterprises’ adherence to its expectation that their fraud risk management “include risk-based internal controls that are designed to prevent and deter fraud.”

Fannie Mae

During the review period, FHFA conducted a targeted examination in 2022 to assess the effectiveness of Fannie Mae’s management of fraud risk, including, but not limited to, risks associated with mortgage fraud, as well as Fannie Mae’s compliance with the Bank Secrecy Act’s (BSA) suspicious activity identification and reporting requirements.³

The targeted examination included a review of Fannie Mae’s approval, adoption, or amendment of various policies concerning the detection and prevention of fraud, including (among others) the Fraud Risk Management Policy. During the examination, the Agency noted which committees of Fannie Mae’s board had approved various fraud-related policies and which management officials were responsible for a given policy.

² Our review’s scope included the past three examination cycles (i.e., January 1, 2020, through December 31, 2023).

³ The BSA authorizes the Secretary of the Treasury to require financial institutions to keep records and report to the Treasury Department’s Financial Crimes Enforcement Network any information that is likely to be useful in criminal investigations. The BSA’s provisions apply to the Enterprises and thereby require them to report transactions that appear to have no lawful purpose, or that otherwise appear to involve, among other things, funds that may be derived from illegal activities, or attempts to use the Enterprises to conceal illegal activities.

In addition, FHFA considered the Enterprise’s efforts to re-evaluate and, as warranted, update various internal controls related to fraud detection and prevention. The Agency also considered Fannie Mae’s fraud reporting process.

Where FHFA noted deficiencies in matters related to aspects of the Enterprise’s [REDACTED], it directed corrective actions.

Freddie Mac

FHFA also conducted a targeted examination⁴ of Freddie Mac in 2022. During this examination, the Agency sought to assess the effectiveness of the Enterprise’s internal policies, procedures, and controls governing financial crimes risk, including risk identification and reporting. The Agency reviewed Freddie Mac’s fraud-related policies to determine whether they provided adequate guidance in assessing, measuring, and controlling risks to the Enterprise.

The targeted examination addressed the Freddie Mac board’s approval and adoption of various fraud-related policies and included both the scope and adequacy of the Enterprise’s risk assessments related to its BSA compliance. As part of its criteria for reviewing these policies, FHFA considered whether the policies identified the person or persons responsible for BSA compliance. Moreover, the Agency considered Freddie Mac’s adherence to FHFA’s expectation that fraud-related policies, procedures, and controls be “reviewed periodically and updated” to reflect risk assessments, as well as the Enterprise’s efforts to conduct risk assessments and update relevant policies as warranted.

FHFA also reviewed Freddie Mac’s suspicious activity reporting and associated processes. The Agency evaluated the timing and content of reporting to the board of directors and senior management on BSA compliance initiatives or deficiencies.

Where the Agency identified deficiencies related to Freddie Mac’s [REDACTED], it directed the Enterprise to take corrective actions.

⁴ The examination of Freddie Mac’s fraud risk management was, by design, not comprehensive and excluded “the multifamily area with its increasing risk profile.” However, the Agency reported that it intends to focus on fraud risk management in an examination scheduled to begin in March 2024.

FHFA Conducted Examination Activity on Enterprise Processes for Investigating Potential Fraud

We also assessed FHFA’s oversight of the Enterprises’ adherence to its expectation that they maintain “effective, risk-based processes to timely investigate potential fraud,” including procedures for reporting investigative findings.

Fannie Mae

As part of its 2022 targeted examination of Fannie Mae, FHFA reviewed the Enterprise’s processes for investigating fraud and for reporting the findings of its investigations into fraud or possible fraud in accordance with regulatory requirements and Enterprise policy. As in the cases discussed above, the Agency highlighted observed shortcomings in relevant [REDACTED].

Freddie Mac

During the 2022 targeted examination of Freddie Mac, the Agency reviewed the Enterprise’s policies on identifying, reporting, and investigating suspicious activities. In addition, it considered Freddie Mac’s case management system for mortgage fraud investigations. FHFA also reviewed a set of loan files to determine whether the Enterprise followed appropriate investigative procedures for identifying fraud.

Where the examination revealed concerns with the Enterprise’s [REDACTED], the Agency documented them.

FHFA Conducted Examination Activity on the Fraud Risk Management Training Provided to Enterprise Leadership

We also assessed the Agency’s oversight of the Enterprises’ adherence to its expectation that they provide and document up-to-date fraud risk management training to members of the board and senior management.

We found that, during supervisory activity⁵ conducted in late 2023, FHFA reviewed the BSA and fraud training that both Enterprises provided to their respective boards of directors and other personnel whose duties required knowledge of BSA issues. The Agency examined “the complete population” of training materials related to BSA compliance that each Enterprise provided to its leadership during the review period.

⁵ The activity was a “horizontal risk analysis” of fraud training at both Enterprises (as contrasted with targeted examination activity focusing on one Enterprise in particular).

FHFA Conducted Examination Activity Regarding the Enterprises’ Testing and Updating of Their Fraud Risk Management Practices

Lastly, we assessed FHFA’s oversight of the Enterprises’ adherence to its expectation that they conduct regular independent testing of their fraud risk management practices in all of their business lines to determine their fraud risk management’s overall adequacy and effectiveness.

Fannie Mae

During its 2022 targeted examination of Fannie Mae, FHFA determined that, in one of its business lines, the Enterprise reviews the policies related to its fraud programs “at least annually (generally a year from their last effective date).” Finding a gap in relevant [REDACTED] in another business line, it directed corrective action.

Finally, FHFA continued its oversight of Fannie Mae’s implementation of the advisory bulletin’s expectations with ongoing monitoring activities during 2023.

Freddie Mac

During its 2022 targeted examination of Freddie Mac, the Agency reviewed whether Enterprise policies and procedures had been updated to reflect changes in the regulatory environment and were relevant and sufficiently detailed. As in other instances described herein, where the Agency had concerns regarding the Enterprise’s [REDACTED], it addressed those—noting, in fact, that it had already identified the issue in previous examination activities.

CONCLUSIONS

For each of the Agency’s expectations selected for this inspection, we found that FHFA had devoted at least some examination activity toward examining each Enterprise’s adherence to that expectation. Although an evaluation of this examination activity’s quality or depth is beyond this inspection’s scope, the Agency’s examination activity was extensive and, except as noted, covered each of the selected expectations in some detail.⁶ We support the Agency’s continued attention to these areas and, as warranted, may conduct further activity on this topic in the future.

⁶ As noted above, the Agency’s recent examination of Freddie Mac excluded the Enterprise’s Multifamily Division, which is to be covered by further examination activity scheduled for March 2024.

OBJECTIVE, SCOPE, AND METHODOLOGY

We initiated this inspection in January 2024 to determine whether FHFA had taken steps to oversee the Enterprises’ adherence to certain fraud risk management expectations selected from AB-2015-07.

To accomplish our objective, we met with Agency personnel responsible for examination of the Enterprises, and requested, obtained, and reviewed documents reflecting the Agency’s examination activities.

We conducted our compliance review from January 2024 through February 2024 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.

ADDITIONAL INFORMATION.....

To report potential fraud, waste, abuse, mismanagement, or any other kind of criminal or noncriminal misconduct relative to FHFA’s programs or operations:

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