



**FHFA Faces a Formidable
Challenge: Remediating the
Chronic and Pervasive Deficiencies
in its Supervision Program Prior to
Ending the Conservatorships of
Fannie Mae and Freddie Mac**



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March 30, 2020

Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) was established by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as the supervisor and regulator of Fannie Mae and Freddie Mac (together, the Enterprises) and the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities). Its statutory mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities so that they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA executes its duty to supervise the regulated entities through statutorily required annual examinations of them. FHFA's Division of Enterprise Regulation (DER) is responsible for developing and implementing FHFA's supervision program for the Enterprises.

For more than a decade, FHFA has served as the Enterprises' conservator and supervisor. In September 2008, FHFA placed them into conservatorships "in response to substantial deterioration in the housing markets that severely damaged [their] ... financial condition and left both unable to fulfill their missions without government intervention." While in conservatorship, the Enterprises have continued to serve as a reliable source of liquidity for the mortgage finance industry. With assets of more than \$5.7 trillion as of December 31, 2019, the safe and sound operation of the Enterprises is critical to an effective and efficient federal housing finance system and a vital U.S. economy.

As HERA recognizes, FHFA's supervision of the Enterprises is of paramount importance to their safe and sound operation. History has shown that a precipitous decline in the safety and soundness of the Enterprises contributed to a severe crisis in the national economy and required nearly \$200 billion in taxpayer support to keep them afloat.

For these reasons, we have deemed FHFA's supervision of the Enterprises to be one of four critical risks on which we have focused our oversight efforts. Since October 2014, we have issued more than 40 reports on FHFA's supervision program for the Enterprises, each of which was conducted in accordance with applicable professional standards. Thirty-four of these reports, taken collectively, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution.

The current FHFA Director was sworn into office on April 15, 2019; his five-year term expires April 15, 2024. He recently announced that the Enterprises may emerge from conservatorship as early as 2021, and that FHFA is developing a "roadmap" by which to end those conservatorships. In its 2019



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Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, issued on October 28, 2019, FHFA stated that its capacity to supervise the Enterprises must be “on par with that of other independent federal financial regulators” before releasing them from conservatorship. In written Congressional testimony, the Director stated that the Enterprises must be “well-regulated” before they can “responsibly” be released from conservatorship. As he explained:

All supervisory and oversight procedures and systems must ensure that FHFA’s examination work is consistently rigorous, timely, and effective, and that additional resources are efficiently allocated to meet the needs of critical areas such as risk modeling and information technology.

To meet this goal, much work will need to be completed in a short period of time to strengthen FHFA’s existing supervision program for the Enterprises and to remediate known shortcomings. The current FHFA Director has begun that process.

Effective February 3, 2020, the FHFA Director replaced the Deputy Director, DER, with a new Deputy Director and Associate Director of DER as part of an organizational “realignment.” We recognize that new leadership of DER, hired from outside FHFA, will need to conduct its own assessment of DER’s supervision program and evaluate whether the corrective actions designed by prior DER leadership are sufficient. That assessment and evaluation should drive the timeline and performance metrics for the remediation effort.

As our work has demonstrated, the problems that beset FHFA’s supervision program for the Enterprises are long-standing and they have not been remediated effectively by the Agency. To assist DER’s new leadership in rebuilding its supervision program for the Enterprises, we summarize, in this report and Appendix A, the chronic and pervasive deficiencies that we have identified in previously published reports. These deficiencies, organized into four programmatic elements, include:

- **Examination Guidance and Execution**

- FHFA lacks clear and comprehensive examination guidance for supervision of the Enterprises and its guidance lacks the rigor of other federal financial regulators.
- FHFA failed to complete a significant number of targeted examinations planned for each year since 2012.



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- **Adequately Sized Examiner Workforce with Necessary Qualifications and Training**

- DER acknowledged in 2019 that it had not engaged in a systematic workforce planning process to determine whether it has the right staff size and skill mix to conduct its statutory supervisory responsibilities, despite its prior commitments to do such planning.
- DER's failure to perform workforce planning, and its persistent failure to complete targeted examinations in the cycle for which they were planned, raises significant questions about its capacity to supervise the Enterprises.
- Despite FHFA's recognition of the significant risks from the Enterprises' use of more than 100 "high-risk" models, DER planned only a few targeted examinations of high-risk models (roughly 3% of those annually over six examination cycles) and completed a fraction of those examinations during the cycle for which they were planned. DER officials maintained that limited resources constricted DER's ability to examine more high-risk models.
- Notwithstanding its expenditure of \$7.7 million over almost seven years, FHFA failed to establish a commissioned examiner program.

- **Communication of Supervisory Findings**

- FHFA failed to communicate Matters Requiring Attention (MRAs) directly to the Enterprises' boards of directors, even though these boards are responsible for ensuring that the MRAs are remediated.
- FHFA shared conclusions from its ongoing monitoring activities with the Enterprises' boards of directors before subjecting them to quality control review, creating a risk of inaccurate information.

- **Quality Control**

- Over the last eight years, FHFA has failed to establish a rigorous quality control function for its supervision program for the Enterprises.

We have reported previously that DER has struggled to complete remediation of chronic and pervasive deficiencies in a timely manner, or has abandoned,



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not fully completed, or completed in form and not substance actions it undertook to remediate these deficiencies.

Consequently, the challenge now facing FHFA is formidable. In its management response, included as Appendix B to this report, FHFA agreed that its supervision of the Enterprises is of paramount importance to their safe and sound operation and asserted that it will continue to pursue the corrective actions to which it had previously committed. To remediate the deficiencies identified by us and by FHFA before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. Success will require a sustained, disciplined, and robust effort on the part of FHFA, led by an accountable senior executive. It will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

Stakeholders should understand that, absent completion of meaningful remediation of deficiencies in its supervision program, FHFA may be unable to meet its statutory responsibilities to ensure the safe and sound operation of the Enterprises.

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, and www.oversight.gov.

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ABBREVIATIONS

DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
Enterprises	Fannie Mae and Freddie Mac, collectively
Federal Reserve	Board of Governors of the Federal Reserve System
FHFA	Federal Housing Finance Agency or Agency
FHLBank	Federal Home Loan Bank
HERA	Housing and Economic Recovery Act of 2008
HFE Program	Housing Finance Examiner Commission Program
MRA	Matter Requiring Attention
OIG	FHFA Office of Inspector General
ROE	Report of Examination
SIFI	Systemically Important Financial Institution

DISCUSSION AND ANALYSIS

FHFA's statutory mission as a federal financial regulator includes ensuring the safety and soundness of its regulated entities so they serve as a reliable source of liquidity and funding for housing finance and community investment.¹ FHFA executes its duty to supervise the regulated entities through statutorily required annual examinations of them.² DER is responsible for developing and implementing FHFA's supervision program for the Enterprises.

As HERA recognizes, FHFA's supervision of the Enterprises is of paramount importance to their safe and sound operation. History has shown that a precipitous decline in the safety and soundness of the Enterprises contributed to a severe crisis in the national economy and required nearly \$200 billion in taxpayer support to keep them afloat.

For these reasons, we have, for the past five years, deemed FHFA's supervision of the Enterprises to be one of four critical risks on which we have focused our oversight efforts. Since October 2014, we have issued more than 40 reports on FHFA's supervision program for the Enterprises. Thirty-four of these reports, taken collectively, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution.³ Each year, in our annual Management and Performance Challenges Memorandum, we have advised the FHFA Director of these deficiencies and cautioned that they present a significant challenge to FHFA's execution of its statutory obligation to ensure the Enterprises' safety and soundness.

To assist DER's new leadership to rebuild FHFA's supervision program for the Enterprises, we summarize below the chronic and pervasive deficiencies that we have identified in previously published reports since October 2014. These deficiencies are organized into the following four programmatic elements:

¹ 12 U.S.C. § 4513(a)(1)(A), (B)(i)-(ii). *See also*, Prepared Remarks of Melvin L. Watt, Director, Federal Housing Finance Agency, at the Bipartisan Policy Center (Feb. 18, 2016) (discussing FHFA's fulfillment of its dual roles as conservator and regulator of the Enterprises).

² 12 U.S.C. § 4517(a).

³ In December 2016, we issued a roll-up report in which we highlighted shortcomings in FHFA's supervision of the Enterprises identified in 12 audit, evaluation, and compliance reports issued between October 2014 and October 2016. *See* OIG, [Safe and Sound Operation of the Enterprises Cannot be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises](#) (Dec. 15, 2016) (OIG-2017-003).

See Appendix A to this report for summaries of relevant findings and conclusions from our reports issued between October 2014 and March 2020.

Element 1: Examination Guidance and Execution

DER Lacks Clear and Comprehensive Examination Guidance, and its Guidance Lacks the Rigor of Other Federal Financial Regulators

Comprehensive examination guidance in the form of policies and procedures is a core feature of a strong supervision program because it establishes the standards, requirements, and expectations that define the program. Over the past five years, we have found that FHFA’s examination guidance was deficient in that it was incomplete, unclear, and less rigorous than examination guidance adopted by other federal financial regulators. The following are examples of deficiencies in DER’s examination guidance that we identified:

- FHFA established a mandatory model risk examination module and work program. DER elected not to follow it because, in DER’s view, the module and work program were not useful. DER, however, did not adopt its own model risk examination module and work program. Consequently, DER examiners lacked clear guidance on model risk examinations.⁴
- DER lacked a disciplined approach for field testing and finalizing most of the 22 examination modules that were developed to provide greater specificity and guidance for its examiners. More than five years after FHFA engaged a contractor to develop 18 examination modules for field testing, at a cost of over \$1 million, DER concluded that its examiners did not find them useful and finalized only five of the modules. It abandoned plans to finalize the rest.⁵
- Unlike the Board of Governors of the Federal Reserve System (Federal Reserve), DER authorized its examiners to leverage the work performed by the Enterprises’ internal audit functions to close MRAs without first assessing the overall strength and effectiveness of those functions.⁶

⁴ OIG, [*Despite FHFA’s Recognition of Significant Risks Associated with Fannie Mae’s and Freddie Mac’s High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely*](#) (Mar. 25, 2020) (EVL-2020-001).

⁵ OIG, [*Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance*](#) (Sept. 10, 2019) (EVL-2019-003).

⁶ OIG, [*FHFA’s Adoption of Clear Guidance on the Review of the Enterprises’ Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners*](#) (Mar. 28, 2018) (EVL-2018-003). According to FHFA, an MRA is an adverse examination finding that is either a “critical supervisory matter” or a “deficiency.” FHFA requires timely remediation of MRAs by the Enterprises and must determine whether the remediation has been effective. See FHFA Advisory Bulletin 2017-01, [*Classifications of Adverse Examination Findings*](#), at 1.

- In a report issued in 2016, we showed that the lack of comprehensive guidance vested significant discretion in the examination teams assigned to each Enterprise, which resulted in a lack of consistency in DER's supervision of the Enterprises.⁷
- Since 2016, we continued to find a lack of consistency among DER examination teams on issues for which FHFA and/or DER have not provided clear direction. For example, existing DER guidance did not require DER examiners to assess whether the practices of each Enterprise comply with FHFA's three advisory bulletins pertaining to risk management of nonbank seller/servicers, even though FHFA recognizes the significant risks to the Enterprises from nonbanks. We found the DER examination team for one Enterprise conducted supervisory activities to assess that Enterprise's compliance with the three FHFA advisory bulletins while the examination team for the other Enterprise assessed compliance with only one.⁸

DER launched an effort in 2018 to develop clear and comprehensive guidance for examination of the Enterprises. In 2019, the former Deputy Director, DER, informed us that DER had begun to benchmark its examination guidance to guidance issued by other peer federal financial regulators. This effort came to naught. The charter for the 2018 effort was never revised to include the benchmarking effort. DER's January 2020 update to its examination manual did not include benchmarking to the Federal Reserve's enhanced supervision program for systemically important financial institutions (SIFIs) or to guidance issued by other federal financial regulators for supervision of large financial institutions.⁹

⁷ See [OIG, *Safe and Sound Operation of the Enterprises Cannot be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises*](#), at 21-25 (Dec. 15, 2016) (OIG-2017-003).

See also [OIG, *Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels*](#) (Jan. 4, 2016) (EVL-2016-001). We found DER's risk assessments of the Enterprises to be inconsistent and incomparable because DER did not require examiners to use common, defined measures of risk and did not provide examiners with clear guidance or templates to document and communicate their risk assessments. DER issued guidance and risk assessment templates in May 2016 in response to our recommendations, but replaced that guidance in September 2017, and did not finalize the risk assessments using the new templates until the end of January 2018.

⁸ [OIG, *FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers*](#) (Dec. 21, 2016) (EVL-2017-002).

⁹ In Congressional testimony, the former FHFA Director acknowledged that the Enterprises would be considered SIFIs but for the conservatorships, and equated FHFA's oversight of the Enterprises as Conservator with the enhanced supervision that the Federal Reserve applied to institutions designated as SIFIs under the Dodd-Frank Wall Street Reform and Consumer Protection Act. For an overview of the Federal Reserve's enhanced supervision program for systemically important financial institutions, see Board of Governors of the Federal Reserve System, [Supervision and Regulation Report](#), at 15-22 (May 2019).

Untimely Completion of Planned Targeted Examinations Is a Chronic and Pervasive Deficiency

The current FHFA Director, in written testimony to the U.S. House of Representatives Committee on Financial Services in October 2019, advised that FHFA’s examination work must be “consistently rigorous, timely, and effective.”¹⁰ DER’s track record of untimely completion of many of its planned targeted examinations does not align with the vision articulated by the Director.

- For each examination cycle from 2012 through 2018, DER completed many fewer targeted examinations than it had planned to complete. This chronic deficiency is discussed more fully below.¹¹
- DER failed to complete its planned supervisory activities related to cybersecurity risks at the Enterprises during the 2016 examination cycle, notwithstanding its public representations that supervision of cybersecurity risks was one of its highest priorities.¹²

Element 2: Adequately Sized Examiner Workforce with Necessary Qualifications and Training

DER’s Failure to Assess and Manage Examiner Resources Resulted in Untimely Completion of a Significant Number of Planned Targeted Examinations

FHFA maintains that it uses a risk-based approach to examinations, prioritizing examination activities based on the risk a given practice poses to a regulated entity’s safe and sound operation or to its compliance with applicable laws and regulations. As the current FHFA Director recognized in written testimony to Congress in October 2019, risk-based supervisory activities are effective when they are consistently rigorous and timely.

According to FHFA, targeted examinations enable examiners to conduct a deep or comprehensive assessment of selected areas of high importance or risk. Our reports

¹⁰ House Committee on Financial Services, Testimony of Dr. Mark A. Calabria, Director, Federal Housing Finance Agency, “The Future of Affordable Housing in America Depends on Mortgage Finance Reform,” at 4 (Oct. 22, 2019).

¹¹ See footnotes 12 through 14 and accompanying text.

¹² See OIG, [*FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle*](#) (Sept. 27, 2017) (AUD-2017-010); and OIG, [*FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks At Freddie Mac for the 2016 Examination Cycle*](#) (Sept. 27, 2017) (AUD-2017-011).

demonstrate that over seven years (2012-2018), DER compiled a dismal record of completing targeted examinations during the examination cycle for which they were planned.

- In 2016, we reviewed DER's completion of planned targeted examinations for four examination cycles, 2012 through 2015.¹³ Not only was its overall completion rate low, but many of the targeted examinations that were completed were not done until after the examination cycle for which they were planned. We found that DER's failure to complete a high percentage of its planned targeted examinations called into question whether DER had a sufficient number of qualified examiners to conduct and complete those examinations, which adversely affected DER's ability to carry out its statutory responsibilities to supervise the Enterprises.
- We performed similar audits in 2019 and found that timely completion of targeted examinations remained an issue during the next three examination cycles – 2016, 2017, and 2018.¹⁴
- In response to a recommendation we made in a 2013 evaluation,¹⁵ FHFA committed to undertake systematic workforce planning and provided updates on those efforts in 2014. Notwithstanding its commitment and its progress reports, DER, through its senior leadership, acknowledged to us in 2019 that DER had not engaged in a systematic workforce planning process to determine whether it has the right staff size and skill mix to conduct its statutory supervisory responsibilities.¹⁶ DER's failure to do so over the past five years, and its persistent failure to complete targeted examinations in the cycle for which they were planned over the past seven years, raises significant questions about its capacity to supervise the Enterprises.

¹³ OIG, [*FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued*](#) (Sept. 30, 2016) (AUD-2016-006); and OIG, [*FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed*](#) (Sept. 30, 2016) (AUD-2016-007).

¹⁴ OIG, [*FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS*](#) (Sept. 17, 2019) (AUD-2019-012); and OIG, [*FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue*](#) (Sept. 17, 2019) (AUD-2019-013).

¹⁵ OIG, [*Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises*](#) (Dec. 19, 2013) (EVL-2014-002).

¹⁶ OIG, [*Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac*](#) (Feb. 25, 2020) (AUD-2020-004).

- FHFA recognizes the significant risks from the Enterprises’ use of “high-risk” models.¹⁷ As of the first quarter of 2019, the Enterprises classified 120 (out of 420) models as containing the highest risk. Over six examination cycles (2014 through 2019), we found that DER planned a small number of targeted examinations of high-risk models annually (roughly 3%) and only completed a fraction of them during the cycle for which they were planned. DER officials maintained that limited resources constricted DER’s ability to provide greater supervisory coverage of high-risk models.¹⁸
- DER examiners attributed the failure to complete targeted examinations during the examination cycle for which they were planned to a lack of resources, despite the insistence by prior leadership of DER and FHFA that DER had an adequate complement of examiners. DER leadership explained to us that the failure to conduct systematic workforce analyses was, in part, the result of the immediate past Director’s decision to keep DER’s budget flat over several years.
- FHFA’s failure to establish a budget adequate to fund its effective supervision of the Enterprises is inconsistent with Congress’ intent, as set forth in HERA. In adopting HERA, Congress chose to exclude FHFA from the appropriations process so that FHFA could obtain the funding it deemed necessary to operate as an effective supervisor (and conservator). HERA vests the FHFA Director with authority to set FHFA’s annual examination budget to include the full cost of supervising and examining its regulated entities to ensure that they operate in a safe and sound manner, and to assess the regulated entities for those costs.

After Investing \$7.7 Million over Almost Seven Years, FHFA Failed to Establish an Examiner Commissioning Program

In a 2011 report, we found, and FHFA agreed, that the efficiency and effectiveness of its supervision program were impeded by the limited number of commissioned examiners (46) then in its employ. FHFA committed to developing a housing finance examiner commissioning program with the stated objectives of producing commissioned examiners

¹⁷ The Enterprises rely heavily on models to measure and monitor risk exposures and make business decisions, and use them extensively for, among other things, mortgage underwriting, collateral valuation, home price forecasting, mortgage cash flow analysis, financial reporting, risk management, risk measurement, stress testing, portfolio management, hedging, financial instrument valuation, measuring compliance with internal risk limits, and capital reserve measurement. The Enterprises classify models by the degree of risk associated with them.

¹⁸ OIG, [*Despite FHFA’s Recognition of Significant Risks Associated with Fannie Mae’s and Freddie Mac’s High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely*](#) (Mar. 25, 2020) (EVL-2020-001).

with “broad-based knowledge to conduct successful risk-based examinations” and qualifying them “to lead the examination of a major risk area at Fannie Mae, Freddie Mac, and the FHLBanks.” Almost seven years and \$7.7 million later, we found that FHFA still lacked a functioning commissioned examiner program, notwithstanding its repeated commitments to implement such a program.¹⁹

Element 3: Communication of Supervisory Findings

DER Failed to Communicate MRAs Directly to the Enterprises’ Boards

FHFA charges each Enterprise’s board of directors with responsibility for ensuring that management corrects all supervisory deficiencies in a timely and appropriate manner.²⁰ For a board of directors to execute that responsibility, it must have knowledge of the deficiencies.

In 2016, we found that FHFA had no mechanism by which to ensure that the boards were informed of all MRAs.²¹ DER informed only the Enterprises’ management of MRAs and relied on Enterprise management to determine whether to communicate the fact and content of each MRA to its board.

In 2018 compliance testing of FHFA’s implementation of our recommendations, we found that DER complied in form, but not in substance, with our recommendation to deliver supervisory correspondence to the Enterprises’ boards of directors.²² DER, through its actions, preserved the status quo, which we cautioned “creates a significant risk that management will put its own spin on the deficiencies giving rise to the MRA or will filter the information it provides to the Board.”

¹⁹ See OIG, [OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program](#) (July 29, 2015) (COM-2015-001); OIG, [Update On FHFA’s Implementation of Its Housing Finance Examiner Commission Program](#) (Mar. 22, 2017) (COM-2017-003); and OIG, [FHFA’s Housing Finance Examiner Commissioning Program: \\$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners](#) (Sept. 6, 2018) (COM-2018-006).

²⁰ 12 C.F.R. § 1239.4.

²¹ OIG, [FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate](#) (Mar. 31, 2016) (EVL-2016-005).

²² OIG, [Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors](#) (Sept. 5, 2018) (COM-2018-005).

DER Risked Communicating Inaccurate Information to the Enterprises' Boards by Providing Conclusions from Ongoing Monitoring Activities in Reports of Examination Before They Underwent Quality Control Review

At the conclusion of each examination cycle, FHFA prepares and transmits a report of examination (ROE) to each Enterprise's board of directors, and the annual ROE constitutes DER's primary work product that communicates the cumulative results of its supervisory activities during the annual cycle. A 2013 FHFA supervision directive required DER to conduct a quality control review of its annual ROEs issued to the Enterprises. In an August 2017 evaluation, we found that conclusions from ongoing monitoring activities were included in ROEs and these ROEs were not subject to quality control review, contrary to FHFA's supervision directive.²³ That practice created the risk that a ROE may inaccurately report to an Enterprise board that an Enterprise was meeting supervisory expectations or making progress in addressing weaknesses, when it was not.

Element 4: Quality Control

Over the Last Eight Years, DER Has Failed to Establish a Rigorous Quality Control Function

A quality control function with sufficient scope of review, structure, and resources is a core feature of a strong supervision program because it permits those responsible for administering the program to confirm that examination personnel are adhering to the program's standards, requirements, and expectations. The quality control function also draws attention to practices that do not meet FHFA standards and enables DER management to identify and correct deficient practices.

In 2011, DER identified its lack of a formal quality control review process and, in 2013, FHFA issued Supervision Directive 2013-01, which established a quality control program for examinations. That directive required examination findings, conclusions, ratings, supporting workpapers, and related documents to be subjected to a formal quality control process with defined standards. During the ensuing years, however, DER has been unable to establish a stable, independent, quality control function.

Since October 2014, we have issued four reports assessing the quality control practices of DER's supervision program. We found that contrary to FHFA's 2013 supervision directive,

²³ OIG, [*The Gap in FHFA's Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac*](#) (Aug. 17, 2017) (EVL-2017-006).

DER lacked a formal quality control program as of June 2015.²⁴ Its formal quality control program, implemented in July 2015, did not include a review of the examination ratings assigned to the Enterprises or of the ROE content, including, as discussed above, examination conclusions from ongoing monitoring activities;²⁵ its quality control program did not conduct a quality control review of a targeted examination included in a ROE, contrary to its quality control requirements;²⁶ and DER did not undertake the remedial actions to evaluate the results of its quality control reviews to improve its supervisory oversight of MRA remediation, which it had previously committed to undertake.²⁷

FHFA Faces a Formidable Challenge to Remediate the Chronic and Pervasive Deficiencies in its Enterprise Supervision Program Prior to Ending the Conservatorships

The FHFA Director recently announced that the Enterprises may emerge from conservatorship as early as 2021, and FHFA is developing a “roadmap” to end those conservatorships. He recognizes that “a precondition for responsibly ending the conservatorships is that the Enterprises must be well-regulated....” According to FHFA’s *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, FHFA’s supervisory capacity must be “on par with that of other independent federal financial regulators,” before the Enterprises are released from conservatorship. As the FHFA Director advised Congress in written testimony in October 2019, “FHFA’s supervision of the Enterprises must be strong and well-executed” before the conservatorships end. He explained that his vision of “strong and well-executed” meant:

All supervisory and oversight procedures and systems must ensure that FHFA’s examination work is consistently rigorous, timely, and effective, and that additional resources are efficiently allocated to meet the needs of critical areas such as risk modeling and information technology.

²⁴ OIG, [*Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations*](#) (Sept. 30, 2015) (EVL-2015-007).

²⁵ OIG, [*The Gap in FHFA’s Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac*](#) (Aug. 17, 2017) (EVL-2017-006).

²⁶ OIG, [*FHFA’s 2015 Report of Examination to Fannie Mae Failed to Follow FHFA’s Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise’s New Representation and Warranty Framework*](#) (Sept. 22, 2017) (AUD-2017-008).

²⁷ OIG, [*Compliance Review of FHFA’s Commitment to Evaluate its Internal Quality Control Reviews Pertaining to Matters Requiring Attention*](#) (Sept. 9, 2019) (COM-2019-007).

Once the Enterprises are released from conservatorship, FHFA’s authorities as conservator terminate, and FHFA must rely solely on its supervisory and regulatory authorities to ensure the safety and soundness of the Enterprises.

In the summer of 2019, another federal financial regulator completed an informal review of DER’s supervision program and identified gaps in it. Former DER leadership assessed the results of this review, along with findings from our reports and its own self-assessment of the supervision program. Based on its assessment, DER developed a set of high-level corrective actions and associated work steps, with “target completion” dates. The prior Deputy Director, DER, projected that DER would complete remediation of deficiencies in its supervision program by the end of 2020.

In January 2020, an FHFA senior advisor, who serves as liaison from the Office of the Director to DER, observed that the gaps in DER’s supervision program are significant, efforts to strengthen the program are in their early stages, and much work must be done. This senior advisor explained that DER’s remedial progress cannot be meaningfully assessed because FHFA has not yet established practical milestones and performance measures for DER’s efforts. We understood his explanation to mean that FHFA has not yet translated the general descriptor of “supervisory capacity...on par with that of other independent federal financial regulators,” into practical milestones and performance measures to track DER’s progress.

Effective February 3, 2020, the FHFA Director replaced the Deputy Director, DER, who had primary responsibility for DER’s supervision program since 2014, and appointed a new Associate Director of DER as part of a broader organizational “realignment.”²⁸ According to FHFA, the realignment of its structure “is designed to ensure that the Agency is well-positioned for the Enterprises to responsibly exit conservatorship.”

We understand that the new leadership of DER, hired from outside FHFA, will need to conduct its own assessment of DER’s supervision program and evaluate whether the corrective actions designed by prior DER leadership are sufficient. That assessment and evaluation should drive the timeline and performance metrics for the remediation effort.

CONCLUDING OBSERVATIONS

As HERA recognizes, FHFA’s supervision of the Enterprises is of paramount importance to their safe and sound operation. History has shown that a precipitous decline in the safety

²⁸ The realignment added a Division of Research and Statistics, Division of Accounting and Financial Standards, Office of Equal Opportunity and Fairness, and renamed the Division of Conservatorship to the Division of Resolutions.

and soundness of the Enterprises contributed to a severe crisis in the national economy and required billions of dollars in taxpayer support to keep them afloat. The current FHFA Director’s vision for FHFA to achieve supervisory capacity “on par with that of other independent federal financial regulators” before the Enterprises are released from conservatorship is sound.

FHFA’s challenge is formidable. Much will need to be done in a short period of time to address chronic and pervasive deficiencies in its Enterprise supervision program. Disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines, led by an accountable senior executive, will be key to the successful completion of this undertaking. In the absence of such project management practices, we have demonstrated that DER has struggled to complete similar projects in a timely manner and with the intended results.

Without prompt, robust, and effective attention by FHFA to remedy all identified chronic and pervasive deficiencies in its supervision program, FHFA’s supervision of the Enterprises will be neither strong nor well-executed, and will not be on par with that of other independent federal financial regulators—FHFA’s stated precondition for releasing the Enterprises from conservatorship.

Stakeholders should understand that, absent completion of meaningful remediation of deficiencies in its supervision program, FHFA may be unable to meet its statutory responsibilities to ensure the safe and sound operation of the Enterprises.

FHFA COMMENTS AND OIG RESPONSE.....

We provided a draft of this report to FHFA and received a written management response. In its management response, included as Appendix B to this report, FHFA agreed that its supervision of the Enterprises is of paramount importance to their safe and sound operation and asserted that it will continue to pursue the corrective actions to which it had previously committed. To remediate these deficiencies identified by us and by FHFA before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. Success will require a sustained, disciplined, and robust effort on the part of FHFA, led by an accountable senior executive. It will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

APPENDIX A: OIG REPORTS ISSUED SINCE OCTOBER 2014 THAT IDENTIFY DEFICIENCIES RELATED TO DER'S SUPERVISION OF THE ENTERPRISES

Since October 2014, we have issued more than 40 reports on FHFA's supervision program for the Enterprises. Thirty-four of these reports, taken collectively, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. Below are summaries of the relevant findings and conclusions from 34 reports that identified deficiencies related to DER's supervision of the Enterprises.

1. [Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely](#) (Mar. 25, 2020) (EVL-2020-001) *DER completed targeted examinations of 24 of the Enterprises' combined 120 high-risk models over six examination cycles (2014 through 2019). Many of those targeted examinations were not completed during the cycle for which they were planned. DER asserted that budget constraints limited its ability to conduct a larger number of targeted examinations; however, it has not sought additional model examiners with the requisite technical skills to examine such models. The failure to complete targeted examinations of high-risk models demonstrates the impact of a lack of workforce planning with respect to the qualifications of examiners, the appropriate number of model examiners, and the number of high-risk models to examine during each annual examination cycle.*
2. [Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners Are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac](#) (Feb. 25, 2020) (AUD-2020-004) *Notwithstanding the commitment made by DER in 2013 to undertake a systematic workforce planning process, written representations during 2014 of the progress made in implementing that commitment, and reaffirmation in 2018 of the importance of systematic workforce planning, DER has failed to implement such a process. We also found that DER lacked a basis to determine whether its current complement of examiners had the necessary skills and experience to carry out supervision of the Enterprises.*
3. [Compliance Review of the Timeliness of FHFA's Assessments of the Enterprises' Remediation Closure Packages for a Matter Requiring Attention](#) (Feb. 21, 2020) (COM-2020-001) *We evaluated DER's compliance with DER-OPB-03.2, internal guidance that was issued in response to a 2016 OIG recommendation. For Freddie*

Mac, we found that DER examiners completed timely assessments of closure packages 50% of the time; for Fannie Mae, we found that DER completed timely assessments of closure packages 43% of the time. DER's adoption of the 120-day assessment period in DER-OPB-03.2 did not correct the shortcoming identified in our evaluation report.

4. **FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data** (Sept. 23, 2019) (EVL-2019-004) *Unlike the Division of Federal Home Loan Bank Regulation (DBR), DER has not collected from its regulated entities cybersecurity incident data using common definitions and standardized data elements. Accordingly, DER lacked a consistent cybersecurity dataset on which to conduct cybersecurity trend analysis across the Enterprises.*
5. **FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue** (Sept. 17, 2019) (AUD-2019-013) *We performed this audit to determine whether DER's completion of planned targeted examinations improved during 2016, 2017, and 2018. We found that the rate of targeted examinations completed in the examination cycle for which they were planned improved but continued to be an issue.*
6. **FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS** (Sept. 17, 2019) (AUD-2019-012) *We found that the rate of targeted examinations completed in the examination cycle for which they were planned improved, but continued to be an issue.*
7. **Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance** (Sept. 10, 2019) (EVL-2019-003) *FHFA developed 22 "supplemental" examination modules to provide more detailed guidance to its supervision staff but more than five years after issuance 78% of the supplemental modules (17 of 22) remained in field testing status. DER abandoned these modules after concluding that its examiners did not find them useful for examining the Enterprises. We found that DER lacked a disciplined approach for field testing and finalizing supplemental examination guidance that FHFA had previously deemed necessary.*
8. **Compliance Review of FHFA's Commitment to Evaluate its Internal Quality Control Reviews Pertaining to Matters Requiring Attention** (Sept. 9, 2019) (COM-2019-007) *We found that DER did not undertake remedial actions to evaluate the*

results of its quality control reviews to improve its supervisory oversight of MRA remediation, which it had previously committed to undertake.

9. **FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility** (Sept. 24, 2018) (EVL-2018-004) *HERA requires the Enterprises to establish and maintain procedures designed to discover and report instances of fraud and possible fraud. We found that FHFA does not make any documented, systematic use of the content of the Enterprises' fraud reports that would permit the Agency to take appropriate supervisory action to address the risk of financial, operational, legal, and reputational harm that fraud poses to the Enterprises.*
10. **FHFA's Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners** (Sept. 6, 2018) (COM-2018-006) *We found that after almost seven years and \$7.7 million spent, FHFA still lacked a functioning commissioned examiner program to produce commissioned examiners, notwithstanding its repeated commitments to implement this program.*
11. **Compliance Review of FHFA's Communication of Serious Deficiencies to the Enterprises' Boards of Directors** (Sept. 5, 2018) (COM-2018-005) *We found that DER complied in form, but not in substance, to the recommendation to deliver supervisory correspondence to Enterprise boards of directors.*
12. **FHFA Failed to Ensure Freddie Mac's Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions** (Mar. 28, 2018) (AUD-2018-008) *We sought to determine, for a 2012 MRA, whether FHFA examiners followed agency requirements when FHFA issued "non-objection" letters to Freddie Mac's remedial plans and in verifying the implementation of those plans. We found that Freddie Mac submitted three remedial plans to DER to address this MRA but none of the plans addressed one of the critical deficiencies giving rise to the MRA. We also found that DER documented its review of evidence submitted by Freddie Mac but because none of the remedial plans addressed one of the critical deficiencies giving rise to the MRA, DER had no evidence that this deficiency was remediated.*
13. **FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners** (Mar. 28, 2018) (EVL-2018-003) *FHFA guidance directs examiners to independently review and assess the documents in an Enterprise's MRA closure package but does not identify the steps that examiners should undertake to*

assess the sufficiency of MRA remediation. We found that this lack of guidance vested examination managers and examiners with broad discretion to determine the scope of their independent assessment of the adequacy of the remedial actions. We also found that examination managers and examiners responsible for closing these MRAs expressed no uniform view as to whether DER examiners were expected to conduct any testing as part of their assessment of MRA remediation.

14. **FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of That Validation Work** (Mar. 28, 2018) (EVL-2018-002)

Like the Federal Reserve, FHFA permits examiners to leverage the validation work conducted by the Enterprises' internal audit functions when determining whether the Enterprise have effectively remediated MRAs. We found, however, that unlike the Federal Reserve, DER examiners used the work of the Enterprises' internal audit functions without first determining that those functions were effective. As a result, we concluded that DER lacked assurance of the overall quality, reliability, competency, and objectivity of the internal audit function when determining whether an Enterprise satisfactorily remediated an MRA.

15. **FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work** (Mar. 13, 2018) (AUD-2018-006)

We found, for a targeted examination of Freddie Mac, that the examiner did not prepare the examination workpapers in a manner that provided a third party with a clear understanding of the examination work performed.

16. **FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle** (Sept. 27, 2017) (AUD-2017-011) *We found that DER did not complete one of its planned 2016 targeted examinations of Freddie Mac related to cybersecurity until after the 2016 ROE issued. Notwithstanding DER's clear quality control requirements, DER included in the 2016 ROE the findings from an incomplete targeted examination before those findings were subjected to a quality control review.*

17. **FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle** (Sept. 27, 2017) (AUD-2017-010) *We assessed whether DER completed its planned supervisory activities (one targeted examination, three ongoing monitoring activities, and activities to monitor implementation of MRAs) relating to Fannie Mae's cybersecurity risk during the 2016 examination cycle, in light of FHFA's written representations that cybersecurity activities would be a key objective of its supervisory*

work during 2016. DER completed none of the planned supervisory activities during 2016 relating to management of cybersecurity risk by Fannie Mae (other than closing MRAs issued in prior years), raising again the concern that DER lacked a sufficient complement of examiners to adequately perform its supervisory responsibilities.

18. [**FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework**](#) (Sept. 22, 2017) (AUD-2017-008) *We found that DER did not perform an independent quality control review of the results of a targeted examination of the representation and warranty framework of one Enterprise that were included in the 2015 ROE before it was issued, contrary to FHFA policy.*
19. [**The Gap in FHFA's Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac**](#) (Aug. 17, 2017) (EVL-2017-006) *We found that conclusions from ongoing monitoring activities, which did not undergo quality control review, were included in ROEs and these ROEs were not subject to quality control review, contrary to FHFA's supervision directive. That practice created the risk that a ROE may inaccurately report to an Enterprise board that an Enterprise was meeting supervisory expectations or making progress in addressing weaknesses, when it was not.*
20. [**FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions**](#) (Mar. 28, 2017) (EVL-2017-004) *This evaluation found no evidence that DER tracked examiner assignments over time or evidence of an examiner rotation practice and concluded that DER's lack of easily accessible and reliable data on examiner assignments over time limits its capacity to make reasoned and effective management decisions about examination resources.*
21. [**Update on FHFA's Implementation of its Housing Finance Examiner Commission Program**](#) (Mar. 22, 2017) (COM-2017-003) *We found that the Housing Finance Examiner Commission Program (HFE Program) was not on track to meet its central objective because many of the enrolled examiners failed to progress in meeting the HFE Program requirements. We found that FHFA had not completed development of a final examination for the HFE Program, which precluded any enrollee from earning an HFE commission.*
22. [**FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers**](#) (Dec. 21, 2016) (EVL-2017-002) *FHFA has warned of the significant risks to the Enterprises from nonbanks, but we found that DER's examination team for*

one Enterprise conducted supervisory activities to assess whether it was in compliance with FHFA's three advisory bulletins pertaining to risk management of nonbank seller/servicers while the examination team for the other Enterprise assessed compliance with only one.

23. **FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed** (Sept. 30, 2016) (AUD-2016-007) *We found that DER completed just over half of its planned targeted examinations for the 2012 through 2015 supervisory cycles and could not account for all of its planned targeted examinations. Both the number and percent of completed targeted examinations that were identified in the annual supervisory plans decreased significantly during this four-year period.*
24. **FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued** (Sept. 30, 2016) (AUD-2016-006) *We found that DER completed less than half of its 2012 through 2015 planned targeted examinations and did not complete many of its planned targeted examinations for each supervisory cycle prior to the issuance of the respective cycle's ROE. The number of planned targeted examinations that were completed dropped significantly since 2012, and no planned targeted examinations for the 2015 supervisory cycle were completed within that supervisory cycle.*
25. **FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed** (Sept. 30, 2016) (AUD-2016-005) *We found that DER's 2014 and 2015 high-priority planned targeted examinations identified in its annual supervisory plans did not trace to risk assessments, and DER completed only 41% of the high-priority targeted examinations planned for the 2014 and 2015 supervisory cycles. We also found that DER lacked written guidance for prioritizing planned targeted examinations, and DER examiners assigned priorities to planned targeted examinations without identifying or explaining the degree of severity of the risks discussed in the underlying risk assessments.*
26. **FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports** (July 14, 2016) (EVL-2016-009) *We found that FHFA relaxed DER's prior guidance governing ROE delivery and the presentation of ROE findings to boards of directors. As a result, all*

decisions on communications with a board of directors of a regulated entity about the ROE were essentially left to the discretion of the EIC for each examination team. FHFA, in its Examination Manual, established supervisory guidance that a board of directors of a regulated entity respond in writing to the ROE, which DER had codified as a requirement. We found that DER had not effectively communicated this requirement to the boards of directors or enforced the boards' compliance with it.

27. **FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns** (July 14, 2016) (EVL-2016-008) *We found that guidance issued by FHFA and DER on the structure and content of the annual ROE was incomplete compared to guidance issued by DBR and by three other federal financial regulators and led to inconsistent and incomplete ROEs. We also found that during five annual supervisory cycles, DER failed to consistently provide Enterprise directors with critical information in the ROEs on the most serious examination findings, which necessarily constrained the directors' ability to exercise effective oversight.*
28. **FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises** (July 14, 2016) (EVL-2016-007) *We found substantial weaknesses in DER's tracking systems that limited significantly the utility of those systems as a tool to monitor the Enterprises' efforts to remediate deficiencies giving rise to MRAs. We also found that DER examiners did not consistently conduct and document independent assessments of the timeliness and adequacy of the Enterprises' remediation efforts.*
29. **FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate** (Mar. 31, 2016) (EVL-2016-005) *Although an Enterprise board is responsible for ensuring timely and effective correction of significant supervisory deficiencies under FHFA supervisory guidance, FHFA's supervisory practices significantly limited the ability of an Enterprise board to execute its responsibilities. FHFA acknowledged that it had no supervisory expectations for an Enterprise board to oversee management's efforts to remediate an MRA on an ongoing basis. We found that under FHFA's supervisory practices, there was a risk that an Enterprise board could become no more than a bystander to management's efforts to remediate MRAs, and FHFA risked prolonged or inadequate resolution of the most serious threats to the Enterprises' safety and soundness.*

30. **FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies** (Mar. 29, 2016) (EVL-2016-004) *We compared FHFA’s guidance for MRA content and remediation to the guidance of the Office of the Comptroller of the Currency and the Federal Reserve and found that FHFA’s standards for MRA content are less rigorous than those of the other regulators. Although we found FHFA’s requirements and guidance for monitoring MRA remediation were similar to that of other financial regulators, DER examiners did not adhere to those requirements and guidance in their oversight of remediation of an MRA issued to an Enterprise in July 2013.*
31. **FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework** (Mar. 28, 2016) (EVL-2016-003) *We found that FHFA had not taken action to implement the Financial Stability Oversight Council recommendation to expand and complete efforts to map existing regulatory guidance to reflect and incorporate appropriate elements of the National Institute of Standards and Technology’s (NIST) Framework for Improving Critical Infrastructure Cybersecurity.*
32. **Utility of FHFA’s Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels** (Jan. 4, 2016) (EVL-2016-001) *We found that the flexible guidance adopted by FHFA and DER for preparation of risk assessments fell far short of the requirements and clear guidance provided by other federal financial regulators that we reviewed, and the lack of minimum required standards limited the utility of DER’s risk assessments.*
33. **Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations** (Sept. 30, 2015) (EVL-2015-007) *Notwithstanding DER’s commitment in September 2012 to establish and implement formal quality control reviews for its examinations of the Enterprises and FHFA’s March 2013 requirement that such reviews be conducted for examinations, we found that for almost four years DER had not established and implemented a comprehensive internal quality control review process for its targeted examinations of the Enterprises.*
34. **OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program** (July 29, 2015) (COM-2015-001) *We found evidence indicating that the HFE Program was not on track to meet its central objective—to produce commissioned examiners who were qualified to lead major risk sections of examinations of its regulated entities. FHFA did not possess records indicating that enrolled examiners were fulfilling their on-the-job training requirements, more than 20% of enrolled examiners in the HFE Program had completed no more than*

one of the 16 required courses as of March 2015, and FHFA did not fully comply with its controls for approving waivers of on-the-job training and course requirements in three of five tested cases.

APPENDIX B: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Kyle D. Roberts, Deputy Inspector General for Evaluations
Marla A. Freedman, Deputy Inspector General for Audits
Brian W. Baker, Acting Deputy Inspector General for Compliance & Special Projects

FROM: Paul J. Miller, Deputy Director, Division of Enterprise Regulation (DER) *PJM*

SUBJECT: Draft OIG Report: *FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac*

DATE: March 25, 2020

Thank you for the opportunity to respond to the draft report referenced above (Report). The Report summarizes the OIG's recommendations from a significant number of reports issued since October 2014 focused on DER's supervision of the Enterprises. While FHFA has responded to each of those reports with recommendations, we write to acknowledge that FHFA will continue to pursue the corrective actions as identified in those management responses.

We agree that FHFA's supervision is of paramount importance to the safe and sound operation of the Enterprises. As we have shared, to ensure that the Agency is well-positioned for the Enterprises to responsibly exit conservatorship, FHFA recently announced a realignment of the Agency structure on January 30, 2020, including hiring a new Deputy Director and Associate Director for DER. In light of these leadership changes, DER will continue to consider various opportunities to enhance the capabilities, processes, and resources of the supervision program.

cc: Chris Bosland
Larry Stauffer
Scott Valentin
John Major

ADDITIONAL INFORMATION AND COPIES.....

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