



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2019, through September 30, 2019



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Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, and the American people. The FHFA Office of Inspector General (OIG) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and holds accountable those, whether inside or outside of the federal government, who waste, steal, or abuse funds in connection with the Agency, Fannie Mae and Freddie Mac (the Enterprises), or any of the Federal Home Loan Banks (FHLBanks).

Our Mission

OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust law enforcement efforts to protect the interests of the American taxpayers.

Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we endeavor to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they lead—without fear or favor, report findings that are supported by sufficient evidence in accordance with professional standards, and recommend actions tied to our findings. Our work is independent, risk-based, relevant, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the FHLBanks in its role as supervisor, and its operation of Fannie Mae and Freddie Mac in its role as conservator).

Because FHFA has been placed in the extraordinary role of supervisor and conservator of the two Enterprises, which support over \$5 trillion in mortgage loans and guarantees, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises are satisfying their delegated responsibilities and that taxpayer monies are not wasted or misused.

We emphasize transparency in our oversight work to the fullest reasonable extent and in accordance with our statutory obligations to foster accountability in the use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator, and the need for corrective action.

Report fraud, waste, or abuse on our [hotline webpage](#) or by calling (800) 793-7724.

Snapshot of OIG Accomplishments

Semiannual Reporting Period
April 1, 2019–September 30, 2019

Reports Issued Includes audits, evaluations, compliance reviews, a management advisory, a risk assessment, and white papers	18
Recommendations made or reopened	29
Investigative Activities:	
Indictments / Charges	56
Arrests	35
Convictions / Pleas	41
Sentencings	28
Suspension / Debarment Referrals to Other Agencies	59
Suspended Counterparty Referrals to FHFA	15
Investigative Monetary Results:	
Criminal Restitution	\$25,034,216
Criminal Fines / Special Assessments / Forfeitures	\$17,500
Investigations Total Monetary Results*	\$25,051,716

*Includes money ordered as the result of joint investigations with other law enforcement organizations.

A Message from the Inspector General

I am pleased to present this Semiannual Report on the operations of the OIG, which covers the period from April 1, 2019, to September 30, 2019.

FHFA has unique responsibilities in its dual roles as conservator and supervisor of the Enterprises and as supervisor of the FHLBanks. Despite their high leverage, limited capital buffer, conservatorship status, and uncertain future, the Enterprises' guarantee portfolios have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 60%. As of June 30, 2019, the Enterprises collectively reported more than \$5.5 trillion in assets. As conservator of the Enterprises, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions that influence and affect the entire mortgage finance industry. As of June 30, 2019, the FHLBanks collectively reported approximately \$1.1 trillion in assets.



Laura S. Wertheimer
Inspector General

Given the size and complexity of the regulated entities and the dual responsibilities of FHFA, we structure our oversight program to examine FHFA's exercise of its dual responsibilities as conservator and supervisor. As a result, OIG's responsibilities are broader than those of OIGs for other prudential federal financial regulators.

To best leverage our resources to strengthen OIG's oversight, our work is risk-based and is focused on the four [management and performance challenges](#) and a management concern facing FHFA, the Enterprises in its conservatorship, and the entities it regulates.

We have established a rigorous process to develop oversight projects based on risk. Once we begin an oversight project, we follow the facts, wherever they lead, without fear or favor. We are a trusted change agent because of our demonstrated independence and objectivity: we ask difficult questions and are not persuaded by rote answers; we critically assess the evidence we obtain during our fieldwork; we report findings that are supported by sufficient evidence in accordance with professional standards; and we recommend practical solutions tied to our findings. Through our audits, evaluations, and compliance reviews, we challenge FHFA to improve its oversight over its conserved entities, enhance its supervision, put more rigorous internal controls into place, and look for and eliminate fraud, waste, and abuse. Our work is independent, relevant, and timely.

During this semiannual period, we published 18 reports, including audits, evaluations, compliance reviews, a management advisory, a risk assessment, and white papers, which are available on [our website](#), and on [Oversight.gov](#), a publicly accessible, searchable website containing the latest public reports from federal Inspectors General who are members of the Council of the Inspectors General on Integrity and Efficiency. These 18 reports illustrate the broad scope of our oversight responsibilities.

For FY 2019, we published a total of 37 reports, including audits, evaluations, compliance reviews, a management alert and advisories, an investigative summary, a special report, a report on an administrative inquiry, a risk assessment, and white papers, all of which are available on our website, and on [Oversight.gov](#). We are proud that our peers on the Council of the Inspectors General on Integrity and Efficiency (CIGIE), have recognized three of these reports for excellence:

- **Government Ethics Award for Excellence:** [*Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director*](#) (OIG-2019-001)
- **Evaluation Award for Excellence:** [*FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation*](#) (EVL-2019-001)
- **Audit Award for Excellence:** [*External Penetration Test of FHFA's Network and Systems During 2018*](#) (AUD-2019-003)

Where our fact-finding has identified shortcomings, deficiencies, or processes that could be upgraded, our reports include actionable recommendations to assist FHFA in improving the effectiveness and efficiency of its operations. For this semiannual period, we issued 27 recommendations and reopened two. Appendix B of this report summarizes all recommendations made or reopened by OIG during this period, recommendations made in prior periods that remain open (and unimplemented), and closed, unimplemented recommendations. During each reporting period, we update information in Appendix B as new recommendations are issued or recommendations are closed, and we publish the updated information monthly in a [Compendium of Open Recommendations](#) on our website.

Through our robust law enforcement efforts, we protect the interests of the American taxpayer. In many of these investigations, we worked collaboratively with our law enforcement colleagues in other agencies. During this reporting period, we conducted a number of significant investigations involving a range of criminal and civil allegations.

Through our written reports and our law enforcement efforts, we hold institutions and their officials accountable for their actions or inactions. The work described in this Semiannual Report

demonstrates the importance of effective, fair, and objective investigative oversight conducted by this Office, and our commitment to our mission.

The accomplishments described in this Semiannual Report are a credit to the talented and dedicated career professionals that I have the privilege to lead.

Laura S. Wertheimer
Inspector General
September 30, 2019

Executive Summary

Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**. HERA charged FHFA to serve as regulator and supervisor of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)** (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. HERA also enhanced FHFA's resolution authority to act as conservator or receiver.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the U.S. Department of the Treasury (Treasury) entered into a **Senior Preferred Stock Purchase Agreement (PSPA)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have invested nearly \$191.5 billion in the Enterprises since 2008. As conservator of the Enterprises, FHFA succeeded to all rights, titles, powers, and privileges of the Enterprises, and of any stockholder, officer, or director of the Enterprises. FHFA is authorized under HERA to:

- Operate the Enterprises and
- Take such action as may be:
 - Necessary to put the Enterprises in a sound and solvent condition and
 - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.¹

Initially, the conservatorships were intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their twelfth year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity. Since September 2008, FHFA has served in the unique role of both conservator and supervisor of the Enterprises and supervisor of the FHLBank System.

HERA also authorized the establishment of OIG to oversee the work of FHFA pursuant to the **Inspector General Act of 1978**. OIG began operations in October 2010 when its first Inspector General was sworn in. As a result of FHFA's dual responsibilities as supervisor of the Enterprises and the FHLBanks, and, since 2008, as conservator of the Enterprises, OIG's oversight

¹ 12 U.S.C. § 4617(b)(2)(A), (B), (D) (2018).

responsibilities are correspondingly broader than those of an Office of Inspector General for other prudential federal financial regulators.

Our mission is to promote economy, efficiency, and effectiveness and protect FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system, and advising the Director of the Agency, Congress, and the public on our findings and recommendations. In doing so, we further the Agency's statutory obligation to ensure that the regulated entities operate in a safe and sound manner and that their operations foster liquid, efficient, competitive, and resilient national housing finance markets. We also engage in robust law enforcement efforts to protect the interests of the regulated entities and the American taxpayers.

OIG's operations are funded by annual assessments that FHFA levies on the Enterprises and the FHLBanks pursuant to 12 U.S.C. § 4516. For **Fiscal Year (FY) 2019**, OIG's operating budget remained at \$49.9 million.

This Report

This Semiannual Report to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of April 1, 2019, to September 30, 2019. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 18 audits, evaluations, compliance reviews, management advisory, risk assessment, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 56 indictments/charges, 41 convictions/pleas, and 28 sentencing of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; and more than \$25 million in criminal restitutions, fines, special assessments, and forfeitures.
- Summarizes OIG's outreach during the reporting period; and
- Reviews the status of OIG's recommendations.

Terms and phrases in bold are defined in Appendix K, *Glossary and Acronyms*. If you are reading an electronic version of this Semiannual Report, then simply move your cursor to the term or phrase and click for the definition.

OIG's Oversight

OIG's Risk-Based Oversight Strategy

Currently, FHFA serves as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their twelfth year, are of unprecedented scope, scale, and complexity. FHFA's dual roles continue to present novel challenges. Consequently, OIG must structure its oversight program to examine FHFA's exercise of its dual responsibilities, which differ significantly from the typical federal financial regulator. Beginning in Fall 2014, OIG determined to focus its resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks to best leverage its resources to strengthen oversight. We established an integrated approach to identify these programs and operations of greatest risk and published our initial risk-based plan in February 2015, which is updated annually.

Our [Audit, Evaluation, and Compliance Plan](#), adopted in April 2019, describes FHFA's and OIG's roles and missions, explains our risk-based methodology for developing this plan, provides insight into particular risks within four areas, and generally discusses areas where we will focus our audit, evaluation, and compliance resources. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

Management and Performance Challenges

An integral part of OIG's oversight is to identify and assess FHFA's top management and performance challenges and to align our work with these challenges. On an annual basis, we assess FHFA's [major management and performance challenges](#), which, if not addressed, could adversely affect FHFA's accomplishment of its mission. OIG continues to focus much of its oversight activities on identifying vulnerabilities in these areas and recommending positive, meaningful actions that the Agency could take to mitigate these risks and remediate identified deficiencies. The management and performance challenges and the management concern are:

Conservatorship Operations: Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters

As conservator of the Enterprises since September 2008, FHFA has expansive authority to oversee and direct operations of two large, complex financial institutions that dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S. housing finance industry. Under HERA, FHFA, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their

business activities. Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

FHFA has delegated authority for many matters, both large and small, to the Enterprises. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator. FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions).

OIG's body of work over the last five years has found that FHFA has limited its oversight of delegated matters largely to attendance at Enterprise internal management and board meetings as an observer and to discussions with Enterprise managers and directors. Read together, our findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions. FHFA also has not clearly defined its expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters. Our work has identified **internal control** systems at the Enterprises that fail to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we have identified a lack of rigor by some directors in seeking information from management about the matters for which they are responsible. We also identified instances in which corporate governance decisions generally reserved to the board of directors have been delegated to management.

As the Enterprises' conservator, FHFA is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises.

Generally, FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. FHFA has established written internal review and approval processes for non-delegated matters, designed to provide a consistent approach for analyzing and resolving such matters and for providing decision-makers with all relevant facts and existing analyses. FHFA faces challenges in ensuring that its established processes are followed.

Supervision of the Regulated Entities: Upgrade Supervision of the Enterprises and Continue Robust Supervision of the FHLBanks

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities

are fundamental to FHFA’s supervisory mission. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises.

As a former FHFA Director observed, Fannie Mae and Freddie Mac would be Systemically Important Financial Institutions (SIFIs), but for the conservatorships, and are subject to the heightened supervision requirements for SIFIs, except that they are supervised by FHFA, not the Federal Reserve. Because the asset size of the FHLBanks and Office of Finance, together, is a fraction of the asset size of the Enterprises and because the Enterprises are in conservatorship, we determined that the magnitude of risk is significantly greater for the Enterprises. Since the Fall of 2014, the majority of our work on supervision issues has focused on FHFA’s supervision of the Enterprises.

Over the past few years, we have assessed critical elements of DER’s supervision program for the Enterprises. For each element that we assessed, we issued reports setting forth the facts, findings, conclusions, and recommendations on each of these critical elements. Each of these reports identified shortcomings and recommended remedial actions.

Based on our assessments of different elements of DER’s supervision program, we identified four recurring themes, which were explained in a roll-up report issued during FY 2017.² Those themes are:

1. FHFA lacks adequate assurance that DER’s supervisory resources are devoted to examining the highest risks of the Enterprises.
2. Many supervisory standards and guidance issued by FHFA and DER lack the rigor of those issued by other federal financial regulators.
3. The flexible and less prescriptive nature of many requirements and guidance promulgated by FHFA and DER has resulted in inconsistent supervisory practices.
4. Where clear requirements and guidance for specific elements of DER’s supervisory program exist, DER examiners-in-charge and subordinate examiners have not consistently followed them.

In that roll-up report, we cautioned that “[w]ithout prompt and robust Agency attention to address the shortcomings we have identified,” the “safe and sound operation of the Enterprises cannot be assumed from FHFA’s current supervisory program.” The findings from subsequent audits, evaluations, and compliance reports regarding FHFA’s supervision program for the Enterprises identified additional shortcomings. In light of the observation that the Enterprises

² See [OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA’s Supervision Program for the Enterprises*](#) (OIG-2017-003, Dec. 15, 2016).

would be SIFIs, but for the conservatorships, FHFA must make a heightened and sustained effort to improve its supervision of the Enterprises.

We also looked at elements of FHFA’s supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

Information Technology Security: Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA

Cybersecurity, as defined by the National Institute of Standards and Technology (NIST), is the process of protecting information by preventing, detecting, and responding to attacks. In May 2017, President Trump issued an executive order to strengthen the cybersecurity of federal networks and critical infrastructure. The Financial Stability Oversight Council (FSOC), of which FHFA is a member, has identified cybersecurity oversight as an emerging threat for increased regulatory attention. The Council reported that “cybersecurity-related incidents create significant operational risk, which may impact critical services in the financial system, and ultimately affect financial stability and economic health.”

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its supervisory activities for the financial institutions it supervises. These supervisory activities may be made increasingly difficult by FHFA’s continuing need to attract and retain highly-qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

As conservator of and supervisor for the Enterprises and supervisor for the FHLBanks, FHFA collects and manages sensitive information, including personally identifiable information (PII), that it must safeguard from unauthorized access or disclosure. Equally important is the protection of its computer network operations that are part of the nation’s critical financial infrastructure. FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

Counterparties and Third Parties: Enhance Oversight of the Enterprises’ Relationships with Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty

will not meet its contractual obligations, and the risk that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its supervisory activities.

Our publicly reportable criminal investigations include inquiries into alleged fraud by different types of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies.

In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of risks related to their counterparties.

Management Concern: Sustain and Strengthen Internal Controls Over Agency and Enterprise Operations

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency. Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

In April 2019, FHFA experienced a leadership change with the confirmation and swearing in of a new Director. Both Enterprises have also experienced significant leadership changes. In late March 2019, Fannie Mae appointed a new Chief Executive Officer (CEO). In July 2019, Freddie Mac's CEO of seven years retired and its President took over as CEO. Among other things, changes in leadership can lead to lack of attention to internal controls.

OIG Impact Through its Oversight Initiatives

Since the Fall of 2014, OIG has developed and implemented new initiatives and enhanced existing processes to strengthen its oversight and provide FHFA with critical information necessary to improve its programs and operations. Given the size and complexity of the regulated entities and the unique, dual responsibilities of FHFA, making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

Office of Risk Analysis

To assist in making those choices, OIG's Office of Risk Analysis (ORA) enhances our ability to focus our resources on the areas of greatest risk to FHFA. ORA is tasked with identifying, analyzing, monitoring, and prioritizing emerging and ongoing risks and with educating stakeholders on those issues. Through its work, it has contributed data and information to our annual risk-based planning process for audits, evaluations, and compliance reviews. It has also made significant contributions to our online knowledge library accessible to OIG employees.

During this reporting period, ORA issued two white papers discussing areas of potential emerging and ongoing risks.

White Paper: The Current Expected Credit Loss (CECL) Methodology and the Enterprises and FHLBanks

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-13, requiring a substantial change in how certain organizations, including Fannie Mae, Freddie Mac, and the FHLBanks, must record credit losses in their financial statements. The regulated entities currently use the "incurred loss" methodology and establish reserves in financial statements when it becomes probable that an asset is impaired and the amount of the loss can be estimated. As of January 1, 2020, the regulated entities are required to use the Current Expected Credit Loss (CECL) methodology and establish reserves for expected losses on assets at the time that such assets are created or acquired.

Many have expressed concerns that implementation of the CECL methodology will be challenging. FHFA officials told us that the regulated entities will be ready to implement CECL on January 1, 2020.

In recognition of the potential risks associated with this change in methodology, we issued this white paper, which discusses the background of the CECL methodology and what FHFA, the Enterprises, and the FHLBanks view as its potential impact on the regulated entities. (See OIG, [*The Current Expected Credit Loss \(CECL\) Methodology and the Enterprises and FHLBanks*](#) (WPR-2019-004, September 24, 2019)).

White Paper: Enterprise Use of Automated Verifications of Borrower Employment, Income, and Assets

Each Enterprise has launched an automated verification program related to income, assets, and/or employment. Borrowers and lenders using such programs authorize the Enterprise to obtain from a third-party vendor virtually the same income, employment, and/or asset data as the lenders receive, during the **underwriting** process, which facilitates independent assessments whether the borrowers' income, employment and/or assets meet its underwriting requirements. Both Enterprises offer relief to lenders from representation and warranty exposure for those components that are verified through the programs. In the event that the third-party vendor provided to an Enterprise borrower data that contained errors or misrepresentations and the Enterprise agreed to purchase a mortgage inconsistent with its risk standards, the Enterprise would hold the risk for potential losses on that mortgage.

In recognition of the potential risks associated with these automated verification programs from use of third-party vendors, and with relief from representation and warranty liability for participating lenders, we issued this white paper, which discusses how each automated verification program works and identifies the potential risks. (See OIG, [*Enterprise Use of Automated Verifications of Borrower Employment, Income, and Assets*](#) (WPR-2019-005, September 26, 2019)).

Administrative Inquiries

OIG conducts administrative inquiries to provide additional, targeted oversight where specific waste, fraud, and/or abuse has been alleged. Reports of completed inquiries keep FHFA senior management, Congress, and the public informed of risks and shortcomings in agency programs and operations.

Office of Compliance and Special Projects

Recommendations to address deficiencies identified during an audit, evaluation, or administrative inquiry require meaningful follow-up and oversight to ensure that the recommendations have been fully implemented and the shortcomings that gave rise to the recommendations have been corrected. OIG's Office of Compliance and Special Projects (OCom) has strengthened our capacity to perform compliance reviews to determine whether FHFA has fully implemented our recommendations. OCom has several responsibilities:

Closure of Recommendations

When FHFA believes that its implementation efforts are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents. Each respective operational division that conducted an audit or evaluation reviews the materials and

representations submitted by the Agency to determine whether to close recommendations—and may close some recommendations based on the Agency’s representations as to corrective actions it has taken. OCom tracks these decisions and communicates with each OIG division prior to the closure of a recommendation to ensure we are applying a single standard across OIG for closing recommendations.

Tracking of Recommendations

OCom maintains a database in which it tracks the status of all recommendations issued by OIG in its reports.

Validation Testing

We are not always able to assess, at the time of closure, whether the implementation actions by FHFA meet the letter and spirit of the agreed-upon recommendation, nor can we determine, at closure, whether the underlying shortcoming has been addressed. OCom conducts validation testing on a sample of closed recommendations to hold FHFA accountable for the corrective actions it has represented it has implemented. We publish the results of that validation testing to enable our stakeholders to assess the efficacy of FHFA’s implementation of actions to correct the underlying shortcoming.

Compliance reviews enhance our ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA, and OCom’s validation testing is a key component. Overall, we validated that since January 2015, FHFA has adequately implemented 15 of the 25 recommendations (60%) we tested and has not implemented the remaining 10 (40%). When OCom determines that a recommendation has not been implemented and the underlying shortcoming remains, the recommendation is reopened and tracked until FHFA takes corrective actions.

During this reporting period, OCom issued four compliance reviews, which are discussed in the next section, *OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period*.

OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period

OIG fulfills its oversight mission through four operational offices. In this section, OIG discusses its oversight activities in three of its operational offices: the Office of Audits, the Office of Evaluations, and OCom. During this reporting period, OIG published 16 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges, and the one management concern that we identified above.

Office of Audits

The Office of Audits (OA) conducts independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. As required by the Inspector General Act, OA performs its audits in accordance with the audit standards promulgated by the Comptroller General of the United States, which are known as generally accepted government auditing standards or GAGAS. OA also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

Office of Evaluations

The Office of Evaluations (OE) conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the **Inspector General Reform Act of 2008**, IGs are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the standards CIGIE established for inspections and evaluations, which are known as the Quality Standards for Inspection and Evaluation (Blue Book).

Office of Compliance and Special Projects

Typically, when an agency accepts an IG recommendation and takes steps to implement the corrective action, the agency reports on its efforts to the IG and the IG relies on materials and representations from the agency to close the recommendation. As discussed in the prior section, the validation testing conducted by OCom holds FHFA accountable for the corrective actions it has represented it has implemented.

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. OCom performs its compliance reviews and special projects in accordance with the Blue Book.

Oversight Activities This Period

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the risk-based areas on which we intend to focus our audit, evaluation, and compliance resources during the calendar year. That risk-based work plan aligns OIG's work to the top management and performance challenges and the management concern we have identified to FHFA.

We now discuss our oversight activities executed by OA, OE, and OCom during the reporting period by each risk area and our assessment of certain FHFA agency operations and internal controls.

Conservatorship Operations

FHFA, as conservator, has delegated responsibility to each Enterprise for a significant portion of day-to-day management and risk management controls. For this governance approach to succeed, FHFA must be confident that the Enterprises' directors and committees are properly exercising the powers they have been given and fulfilling their responsibilities.

During this reporting period, we issued one management advisory in connection with delegated matters.

Management Advisory: Allegations Related to Fannie Mae Senior Executive Spending on Entertainment, Conferences, and Training (January 2016 through September 2018)

OIG conducted an administrative inquiry into the allegations in an anonymous hotline complaint that Fannie Mae's Senior Executives were excessively spending monies on entertainment, conference, and training expenses. We assessed whether the entertainment, conference, and training expenses incurred by Fannie Mae Senior Executives during the period January 1, 2016, through September 30, 2018, met the criteria in Fannie Mae's Business Courtesies Policy, and were unable to substantiate the allegations. Our review of these expenses identified two matters unrelated to the allegations, which we also assessed, and found two exceptions to Fannie Mae's Policy.

FHFA had previously established its expectations for Enterprise management of expense policies, procedures, and compliance programs. It directed the Enterprises to use "management discretion consistent with your ongoing conservatorship status and prudent internal control processes." In light of FHFA's stated expectations and the exceptions we identified, we reported, in a Management Advisory, that prudence counseled FHFA to remind Fannie Mae management of its

obligations. FHFA informed us that they provided a copy of the Management Advisory to Fannie Mae management and reminded it of its obligations to manage its expense policies, procedures, and compliance programs consistent with its ongoing conservatorship status and prudent internal control processes. (See OIG, [*Management Advisory: Allegations Related to Fannie Mae Senior Executive Spending on Entertainment, Conferences, and Training \(January 2016 through September 2018\)*](#) (OIG-2019-006, September 4, 2019)).

Supervision of the Regulated Entities

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, DER is responsible for supervision of the Enterprises and DBR is responsible for supervision of the FHLBanks.

During this reporting period, we completed one evaluation, three audits, and three compliance reviews in connection with FHFA's supervision of its regulated entities.

FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance

FHFA's Examination Manual, issued in 2013, provides the examination policies and practices for examinations of the Enterprises, the FHLBanks, and the Office of Finance. It includes 26 modules organized by risk category and line of business. We found that FHFA, in its development of its 2013 Examination Manual, established deadlines for conducting and completing field testing of the draft modules. In its Annual Performance Plan, the Agency identified the executive responsible for completion of the Examination Manual and established a timetable with a deadline of December 31, 2013, which was met.

In 2012, FHFA announced its intention to develop supplemental modules to provide direction for FHFA supervision staff and as a reference for the regulated entities. Over time, FHFA issued 22 supplemental modules in draft, or "field test" status, which broke broad examination areas such as credit risk management into more discrete modules such as single-family and multi-family credit loss management, mortgage securitization, and mortgage underwriting and acquisitions. Use of any modules in field test status was not required by DER examiners.

As of the date the evaluation issued, FHFA had finalized only 5 of the 22 supplemental modules, and the other 17 supplemental modules remained in field test status. Eleven of the 17 modules had been in field test status for more than five years. We found that FHFA lacked a reliable

process to finalize the supplemental modules: it established no timetable to complete any of the 22 modules and did not identify executives responsible for completion of the modules.

DER officials reported to us that the supplemental modules were too broad and the work programs within them were not useful for examining the Enterprises. We learned that DER launched an effort in November 2018 to develop a stand-alone examination manual for examination of the Enterprises. That effort includes a review of all relevant supplemental modules to identify and incorporate applicable components. DER expects its new Enterprise-only examination manual to be issued by December 31, 2019, although it does not expect all modules to be final by that date.

Given the significant delay in finalizing the supplemental modules, we concluded that DER should take the necessary steps to ensure that the current project to revise its examination guidance is completed in a timely manner. We recommended that FHFA (1) establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual and (2) establish and communicate clear expectations for use of revised and new examination modules by DER examiners. FHFA agreed with our recommendations. (See 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*](#) (EVL-2019-003, September 10, 2019)).

Audits of FHFA's Implementation of its 2016 to 2018 Planned Targeted Examinations for the Enterprises

FHFA maintains that it uses a risk-based approach to supervisory 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. Within FHFA, DER is responsible for supervision of the Enterprises and an affiliated entity, Common Securitization Solutions, LLC (CSS). CSS is a joint venture owned by the Enterprises and charged with developing, building, and operating the Common Securitization Platform (CSP) to replace their separate "back-office" systems and to issue a single **mortgage-backed security**.

Because targeted examinations are a critical component of FHFA's supervisory activities, we have audited different aspects of FHFA's annual examination plans. Since 2016, we have issued five audit reports related to the completion of planned targeted examinations and other supervisory activities of the Enterprises (three reports in 2016 and two reports in 2017). Our 2016 and 2017 audits included a total of 11 recommendations.

During this semiannual reporting period, in light of our findings in the prior audits, we completed two audits to determine whether FHFA completed its planned targeted examinations

for the Enterprises for the 2016, 2017, and 2018 examination cycles and, if it did not, whether it documented the deviations from its plans in accordance with its policies and procedures. In both audits, based on our analysis of the information provided by FHFA, we found that DER's completion of planned targeted examinations of the Enterprises improved (as compared to the 2016 audits), but timeliness remained an issue. We also determined that 5 of the 11 recommendations in our prior audits were relevant to the objectives of these audits; we found that FHFA took appropriate action to address those relevant recommendations.

Our first audit found that as of July 1, 2019, of the 47 targeted examinations planned of Fannie Mae by DER for the 2016 through 2018 examination cycles, 38 targeted examinations were completed (81%). Of the 9 targeted examinations that were not completed, 8 were not conducted – either converted to ongoing monitoring, deferred, or cancelled (17%) – and 1 was commenced but not completed (2%). DER's completion rate of 81% of its planned targeted examinations for the 2016 through 2018 examination cycles (as of July 1, 2019) is nearly double the 42% completion rate we found in our 2016 audit. For this audit, DER could account for all planned targeted examinations of Fannie Mae and provided risk-based justifications for all eight examinations that were not conducted.

We also found that timely completion of targeted examinations of Fannie Mae prior to issuance of the annual report of examination (ROE) improved, but continued to be an issue. Specifically, during this review period, we found that 21 (45%) were completed during the examination cycle for which they were planned (and before the ROE issued for the respective examination cycle). Seventeen (17) of the 47 (36%) were completed in a later examination cycle and were reported, as applicable, in subsequent ROEs. (As shown above, the remaining planned targeted examinations were either converted to ongoing monitoring, deferred, cancelled, or commenced but not completed.)

In performing this audit, we identified a matter for consideration related to FHFA's supervision of CSS. Specifically, FHFA adopted a supervision framework for CSS in 2016 that was expected to be adjusted over time, but has not been. In June 2019, CSS began issuing a single mortgage-backed security, referred to by FHFA as the Uniform Mortgage-Backed Security, for both Enterprises. As acknowledged by a DER official, the 2016 supervision framework for CSS should be reassessed given that CSS is now issuing the Single Security. We made one recommendation in this report related to updating the supervision framework for CSS, and FHFA agreed with the recommendation. (See 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*](#) (AUD-2019-012, September 17, 2019)).

Our second audit found that of the 46 targeted examinations planned for Freddie Mac by DER for the 2016 through 2018 examination cycles, 37 targeted examinations were completed (81%). Of the 9 targeted examinations that were not completed, 7 were not conducted – either converted to ongoing monitoring or a business profile, or cancelled (15%) – and 2 were commenced but not completed (4%). DER’s completion rate of 81% of its planned targeted examinations for the 2016 through 2018 examination cycles (as of July 1, 2019) is an improvement over the 56% completion rate we found in our 2016 audit. For this audit, DER could account for all planned targeted examinations of Freddie Mac and provided risk-based justifications for all seven examinations that were not conducted.

As with Fannie Mae, we also found that timely completion of targeted examinations of Freddie Mac prior to issuance of the ROE improved, but continued to be an issue. Specifically, during this review period, we found that 27 (59%) were completed during the examination cycle for which they were planned (and before the ROE issued for the respective examination cycle). Ten (10) of the 46 (22%) were completed in a later examination cycle and were reported, as applicable, in subsequent ROEs. (As shown above, the remaining planned targeted examinations were either converted to ongoing monitoring or a business profile, cancelled, or commenced but not completed.) (See OIG, [*FHFA’s Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue*](#) (AUD-2019-013, September 17, 2019)).

Compliance Review of FHFA’s Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention

In its examinations of the Enterprises and the FHLBanks, FHFA may issue findings regarding deficiencies. The most serious of these findings are Matters Requiring Attention (MRAs). FHFA mandates that examination workpapers, including those pertaining to MRAs, be subjected to quality control reviews intended to ensure their compliance with established examination standards and supervision policy.

In a March 2016 evaluation report, we found that DER examiners did not adhere to FHFA requirements and guidance in their supervisory oversight of an Enterprise’s remediation of an MRA. Among other things, we recommended that FHFA evaluate the results of quality control reviews conducted by DER and DBR to identify and address gaps and weaknesses pertaining to supervisory oversight of MRA remediation, but we did not specify the frequency of such evaluations. In response, DER and DBR ultimately agreed to prepare periodic reports for their respective managements consistent with our recommendation. We closed the recommendation in April 2017.

During this reporting period, we completed a compliance review to determine whether DER and DBR prepared periodic reports during our review period, as each had committed to do. We found

that DBR complied with its commitment, but DER prepared no periodic reports during the review period, although it had drafted two such reports in 2016. DER stated that the draft reports were discontinued because they were time-consuming to produce and were not used. We identified no other DER actions addressing the recommendation during the review period.

In February 2019, DER prepared a report for management evaluating the results of multiple quality control reviews, including 17 reviews pertaining to MRAs. This February 2019 DER report, prepared outside of our review period, addressed our recommendation, but DER has not determined whether it will issue similar reports in the future.

We concluded that a one-time assessment by DER to identify gaps and weaknesses in supervisory oversight of MRA remediation was not consistent with the spirit or letter of FHFA's commitment. For that reason, we reopened the recommendation to DER from our 2016 evaluation report. (See OIG, [*Compliance Review of FHFA's Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention*](#) (COM-2019-007, September 9, 2019)).

FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016–2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank

The Bank Secrecy Act (BSA) was enacted to safeguard the U.S. financial system: from illicit use such as for terrorist financing; to combat money laundering and other illegal activity; and to require suspicious activity reporting, including fraud reporting. In February 2014, the Financial Crimes Enforcement Network (FinCEN), a bureau of Treasury, amended its regulations to define FHFA-regulated entities as financial institutions subject to BSA requirements and to delegate authority to FHFA to examine the regulated entities' compliance with those requirements.

DBR conducts annual safety and soundness examinations of each FHLBank and the Office of Finance. As part of these examinations, DBR periodically, in accordance with its minimum frequency guidelines, examines the FHLBanks' BSA/Anti-Money Laundering (AML) programs.

We completed an audit in which we sought to assess FHFA's examinations of BSA/AML programs performed at each of the 11 FHLBanks. As part of this audit, we reviewed the most recent BSA/AML program examination performed at each FHLBank during the 2016, 2017, or 2018 examination cycles (review period).

We found that, during our review period, examinations of BSA/AML programs were performed at all 11 FHLBanks in accordance with DBR's established minimum frequency guidelines. DBR planned, performed, documented, and reported on each examination in accordance with FHFA guidance for 10 of the FHLBanks. For the remaining FHLBank, we found that DBR's

examination workpapers did not support a BSA/AML-related conclusion included in the ROE that DBR prepared and transmitted to the FHLBank's board of directors.

The unsupported conclusion in the ROE for this FHLBank caused us to examine whether the BSA/AML program examination workpapers underwent a quality control review. DBR's quality control process is intended to confirm that examination findings and conclusions in the ROE are adequately supported before DBR transmits the ROE to the board of the regulated entity. The unsupported conclusion in the ROE in this instance was not detected by DBR's quality control process because that process did not require the review of examination work performed by the Examiner-in-Charge. This gap in DBR's quality control process increases the risk that a ROE will assure an FHLBank's board of directors that management is meeting FHFA's supervisory expectations when it is not. We made two recommendations to address these shortcomings. (See [OIG, *FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank*](#) (AUD-2019-008, July 10, 2019)).

Compliance Review of FHFA's Risk Assessments of the Enterprises

FHFA's DER is responsible for supervision of the Enterprises, and it conducts that supervision through targeted examinations and ongoing monitoring. Because its supervision is risk-based, DER performs an annual risk assessment of each Enterprise which provides the foundation for preparing its annual supervisory plan. The annual supervisory plan identifies all targeted examinations and ongoing monitoring activities of selected areas of high importance or risk.

In September 2016, OIG issued an audit report in which we found, among other things, that: (1) almost half of DER's high-priority targeted examinations for 2014 and 2015 did not trace to DER risk assessments; and (2) the risk assessments that DER prepared did not identify or explain the severity of the risks discussed within the risk assessment. We recommended that FHFA "[e]nsure that risk assessments support the supervisory plans in terms of the targeted examinations included in those supervisory plans and the priority assigned to those targeted examinations." OIG closed its recommendation in October 2017 when it determined that DER had reviewed its risk assessment procedures and amended its guidance in September 2017. The revised guidance required that risk assessments adhere to a template, and it included instructions on required content.

We completed a compliance review to assess FHFA's implementation of its revised risk assessment guidance. The scope of our review was limited to the risk assessments leading to the 2018 and 2019 annual examination plans for the Enterprises. We concluded that FHFA substantially implemented its revised guidance governing the content and approval of risk assessments. Where we noted departures from the guidance, we found that DER explained them sufficiently. (See OIG, [Compliance Review of FHFA's Risk Assessments of the Enterprises](#) (COM-2019-006, August 14, 2019)).

Compliance Review of FHFA’s Office of Minority and Women Inclusion

Section 1116 of HERA directs that each of FHFA’s regulated entities establish an office for diversity and inclusion. Each regulated entity is required by statute to “develop and implement standards and procedures to ensure, to the maximum extent possible, the inclusion and utilization of minorities . . . and women, and minority- and women-owned businesses . . . in all business and activities of the regulated entity at all levels . . .” The **Dodd-Frank Wall Street Reform and Consumer Protection Act** (Dodd-Frank Act) mandates that every federal financial regulator, including FHFA, create an Office of Minority and Women Inclusion (OMWI). By statute, each agency’s OMWI is responsible “for all matters of the agency relating to diversity in management, employment, and business activities,” and each OMWI Director must, among other things, “develop standards for assessing the diversity policies and practices of entities regulated by the agency.”

In March 2014, nine members of the U.S. House of Representatives asked the Inspectors General at seven financial regulators, including FHFA, to conduct a review of diversity and related workplace issues at their agencies. In response, OIG initiated an evaluation to: (1) determine if any personnel practices had systematically prevented minorities and women from obtaining senior management positions at the Agency; (2) determine if any personnel practices had created a discriminatory workplace for minorities and women; and (3) assess OMWI’s operations.

In our January 2015 evaluation, we found that OMWI carried out statutorily mandated reporting requirements, conducted diversity training, and initiated a number of other efforts to increase diversity. We also found, however, that FHFA had not acted on some of OMWI’s proposals concerning diversity and workforce issues. For example, FHFA had not acted on OMWI’s draft diversity and inclusion (D&I) strategic plan. FHFA agreed to our recommendation that it adopt, and by implication implement, a D&I strategic plan. OMWI published its *FY16-18 OMWI Strategic Plan* in July 2015 (OMWI Strategic Plan). We closed the recommendation in January 2016 based on FHFA’s publication of its OMWI Strategic Plan.

FHFA’s OMWI Strategic Plan established five “goals” and supporting “objectives,” which identified the necessary tasks, or “strategies,” the Agency had to perform in order for it ultimately to achieve each goal. The second goal of the OMWI Strategic Plan required that OMWI develop standards for implementing D&I practices within FHFA and develop guidance for use by the regulated entities. OMWI represented that these standards and guidance would fulfill OMWI’s statutory obligations under HERA and the Dodd-Frank Act. To achieve this second goal, the OMWI Strategic Plan set forth three objectives. One objective, titled “Design and develop an agency D&I Examination Program,” required OMWI to complete four tasks.

We conducted a compliance review to determine whether OMWI accomplished these four tasks and found that it had. However, we identified a deficiency in the execution of the D&I

examination program: quality control reviews of D&I examination results either did not occur or were not timely. We recommended that the Agency ensure that quality control reviews are performed before issuing D&I examination results to a regulated entity, as required by FHFA's standard. (See OIG, [Compliance Review of FHFA's Office of Minority and Women Inclusion](#) (COM-2019-005, June 24, 2019)).

Information Technology Security

During the reporting period, we issued one audit, one evaluation, and one compliance review regarding IT security and compliance with the Federal Information Security Modernization Act of 2014 (FISMA).

2019 Internal Penetration Test of FHFA's Network and Systems

FISMA requires agencies, including FHFA, to develop, document, and implement agency-wide programs to provide information security for the information and information systems that support the operations and assets of the agency. FISMA also requires Inspectors General to perform annual independent evaluations of their respective agencies' information security program and practices. The annual FISMA audit of FHFA, however, does not include penetration testing of FHFA's network and systems.

In 2018, we performed an external penetration test of FHFA's network and systems (See OIG, [External Penetration Test of FHFA's Network and System During 2018](#) (AUD-2019-003, February 11, 2019)). During this semiannual period, we performed an internal penetration test to determine whether FHFA's security controls were effective to protect its network and systems against internal threats. For purposes of this audit, we were given the same access a typical FHFA employee would be given—general user access with no special rights or privileges.

Using the access given to a typical FHFA employee, we determined that FHFA's network, systems, and information were not sufficiently protected against insider threats. We found a number of control deficiencies:

- an FHFA wireless network intended for employees' personal use of the internet improperly allowed non-FHFA-issued devices to access FHFA's internal network. Through this wireless network connection, we were able to scan FHFA servers. Our scanning tools identified high severity and medium severity vulnerabilities related to outdated protocols in FHFA's systems;
- sensitive information could be accessed;
- some offices in FHFA's headquarters building were open outside of business hours with sensitive information left unattended and plainly visible;

- controls did not prevent the use of unapproved programs; and
- default administrator passwords were not changed.

As these control deficiencies were identified during our audit, we brought them to the attention of FHFA management who took or began to take remedial actions to address them. These vulnerabilities, if not remediated, pose risk to FHFA's network, systems, and information.

Continued management attention and action is required to ensure that FHFA's security controls protect its network and systems against internal threats. We made six recommendations to address these deficiencies. (See OIG, [2019 Internal Penetration Test of FHFA's Network and Systems](#) (AUD-2019-014, September 24, 2019)).

FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data

FHFA's regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to **guarantee** or purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and PII. Both the Enterprises and the FHLBanks have been the targets of cyber attacks. FHFA acknowledges that its regulated entities face significant cybersecurity risks and the Agency understands its responsibility to provide effective oversight of the Enterprises' management of cybersecurity risks.

In 2015, the U.S. Government Accountability Office (GAO) conducted a performance audit of several federal financial regulators' oversight of cybersecurity threat mitigation by their regulated entities. The 2015 GAO report highlighted the value of centralized analysis of incident data, including trends analysis, and concluded that "[w]ithout collecting and analyzing data more consistently, regulators have not obtained information that could identify broader IT issues affecting their regulated entities, and better target their IT risk assessments." The GAO report also emphasized that "[c]ollecting trend information and analyses could further increase regulators' ability to identify patterns in problems across institutions, better target reviews, and better deploy the IT experts among their staff."

In this evaluation, we examined FHFA's requirements and practices for collecting and analyzing cybersecurity incident data between January 1, 2017, and April 30, 2019. Under existing FHFA guidance, the regulated entities are required to report specific cybersecurity incidents under limited circumstances. The regulated entities submitted only a handful of such reports to FHFA under this guidance during this time period.

To obtain information on additional cybersecurity incidents, DER has relied primarily on internal management reports that the Enterprises submit to FHFA. When comparing these internal reports, we found that Freddie Mac reported a significantly greater number of cybersecurity “events” and “incidents” than did Fannie Mae. Because each Enterprise defines cybersecurity events and incidents differently, DER lacked a consistently defined cybersecurity dataset on which to conduct trend analysis across the Enterprises.

During 2019, DBR initiated a pilot program to collect and analyze data on each cybersecurity incident that occurs at each FHLBank and the Office of Finance to better understand the cybersecurity threat environment faced by them. DBR has developed a uniform template and definitions for the collection of standardized incident data.

We found that FHFA does not have an agency-wide cybersecurity incident data analysis program based on a consistent dataset, and that the cyber-related incident data that DBR and DER collect from their regulated entities cannot be readily reconciled for comparison purposes. As a result, FHFA lacks sufficient information to conduct trend or other time-series analyses across its regulated entities and has not done so.

We recommended that FHFA conduct inquiries and analyses to explain the large disparities in reported cybersecurity events and incidents between the Enterprises and evaluate the cybersecurity data it obtains from the regulated entities and revise, as appropriate, its existing cybersecurity reporting requirements. (See OIG, [*FHFA Should Enhance Supervision of its Regulated Entities’ Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data*](#) (EVL-2019-004, September 23, 2019)).

Compliance Review of DBR’s Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks

With an increasing number of cybersecurity incidents, including large-scale data breaches, affecting financial institutions of all sizes, it is important for institutions to have preventive and detective controls in place to mitigate the threat. Two such controls are vulnerability scans and penetration tests, which are applied to identify information security deficiencies and determine if existing security measures in an entity’s technology environment could be circumvented.

In February 2016, we issued an audit report in which we found DBR’s examinations generally did not assess the design of the FHLBanks’ vulnerability scans and penetration tests when evaluating the operational effectiveness of those controls. We made two recommendations to address this shortcoming, which FHFA accepted—we recommended that the Agency (1) update its guidance to direct examiners to assess the design of the FHLBanks’ vulnerability scans and penetration tests when assessing the operational effectiveness of such controls, and (2) require

examiners to document their assessments of the design of those scans and tests. In early 2017, the Agency updated its guidance to implement our recommendations and clarified that existing examiner documentation standards applied. We closed the recommendations in February 2017 based upon those actions.

During this reporting period, we conducted a compliance review to evaluate DBR's compliance with its January 2017 guidance and existing standards for examiners to conduct and document design assessments of the FHLBanks' and Office of Finance's vulnerability scans and penetration tests when evaluating the operational effectiveness of those controls. We reviewed documentation for examinations for which work plans were approved between February 18, 2017, and December 31, 2018. For 11 of the 18 examinations (approximately two-thirds) in which DBR evaluated the operational effectiveness of vulnerability scans and penetration tests, we found that DBR did not fully comply with its revised guidance. Upon inquiry, DBR acknowledged with regard to the 11 previously cited examinations that it did not "seek to assess the design" of the vulnerability scans and penetration tests. Our recommendation that DBR require examiners to document their assessments of the design of vulnerability scans and penetration tests necessarily implied that it require examiners to actually perform those assessments, as set forth in its updated guidance. Consequently, we reopened our recommendation that DBR require examiners to document design assessments. (See OIG, [Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks](#) (COM-2019-004, May 7, 2019)).

Counterparties and Third Parties

The Enterprises rely heavily on counterparties for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations and the risk that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews their management largely through its supervisory activities.

During this reporting period, we issued one white paper in which we identified potential risks associated with automated verification programs from use of third-party vendors that we will continue to monitor. (See OIG, [Enterprise Use of Automated Verifications of Borrower Employment, Income, and Assets](#) (WPR-2019-005, September 26, 2019), discussed previously).

Agency Operations and Internal Controls

During this reporting period, we completed four audits and one risk assessment relating to agency operations and internal controls.

FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures

As directed by HERA, on February 10, 2011, FHFA adopted a regulation that established the Office of the Ombudsman and specified the authorities and duties of the Ombudsman. According to the regulation, the office is to be headed by an Ombudsman who will consider complaints and appeals from the regulated entities, Office of Finance, and any person that has a business relationship with a regulated entity or the Office of Finance regarding any matter relating to the regulation and supervision of such regulated entity or the Office of Finance by FHFA. The regulation further requires the Ombudsman to (1) establish procedures for carrying out the functions of the office; (2) establish and publish procedures for receiving and considering complaints and appeals; and (3) report, at least annually, to the FHFA Director on the activities of the office.

In this audit, we sought to determine whether FHFA's Office of the Ombudsman conducted its operations in accordance with the law, regulation, and policies and procedures. The scope of the audit covered the period January 1, 2017, to March 31, 2019.

We found that the Office of the Ombudsman was not headed by an Ombudsman at the time of our audit, as required by regulation. In the absence of a permanent or acting Ombudsman, the functions and duties of the office were being performed by others. While FHFA established an Ombudsman website which provides the public with required information about the office, the required procedures for carrying out the functions of the office had not been documented. We also found weaknesses in the tracking of complaints and documentation of the office's activities.

We made two recommendations to address these deficiencies. (See OIG, [*FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures*](#) (AUD-2019-011, September 16, 2019)).

Statutory Audit: Performance Audit of FHFA's Privacy Program

By statute (42 U.S.C. § 2000ee-2), FHFA is required to establish and implement comprehensive privacy and data protection procedures governing the agency's collection, use, sharing, disclosure, transfer, storage and security of information in an identifiable form related to employees and the public. Such procedures are to be consistent with legal and regulatory guidance, including OMB regulations, the Privacy Act of 1974, and section 208 of the E-Government Act of 2002. The statute also requires OIG to periodically conduct a review of FHFA's implementation of this section and report the results of our review to the Congress.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct a performance audit to meet our reporting requirement under the statute. The

objective of the audit was to assess FHFA's implementation of its privacy program in accordance with federal law, regulation, and policy. Specifically, the audit was to determine whether FHFA implemented comprehensive privacy and data protection policies and procedures governing the Agency's collection, use, sharing, disclosure, transfer, storage and security of information in an identifiable form relating to Agency employees and the public.

Based on its audit work, CLA concluded that FHFA had generally implemented effective privacy and data protection policies and procedures in accordance with law, regulation, and policy. CLA found that although FHFA generally implemented an effective privacy program, its implementation of certain privacy requirements was not fully achieved. CLA noted weaknesses in the maintenance of privacy policies and procedures, privacy continuous monitoring, privacy control documentation, protection of information systems from unauthorized access to PII, privacy impact assessments (PIAs), and privacy training. As a result, CLA made 11 recommendations to assist FHFA in strengthening its privacy program.

In its management response, FHFA agreed to 7 of the 11 audit recommendations and CLA concurred with management's response to those recommendations. For two recommendations with which it disagreed, FHFA management stated in its response that it planned to address the recommendations once certain NIST guidance is updated. CLA determined, and we agreed, that management's response met the intent of the recommendations. The other two recommendations with which management disagreed involved the need to formally document a management decision regarding application controls. We consider these two recommendations rejected and closed. In our letter transmitting CLA's report, we encouraged FHFA to formally document its decision in this regard, as recommended by CLA. (See OIG, [Audit of the Federal Housing Finance Agency's 2019 Privacy Program](#) (AUD-2019-009, August 28, 2019)).

Statutory Audit: FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2018

The Improper Payments Information Act of 2002, as amended (IPIA), requires federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. IPIA, among other things, directs federal Inspectors General to determine annually whether their respective agencies are in compliance with the statute.

FHFA maintains that most requirements of the IPIA are not applicable to the Agency because those requirements apply only to payments made with federal funds and FHFA does not finance its operations with federal funds. That said, FHFA asserts that it has put into place internal controls to achieve the intent of IPIA. We conducted an audit to assess the Agency's compliance with IPIA for fiscal year 2018. We found that FHFA complied with the applicable provisions

of IPIA. (See OIG, [*FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2018*](#) (AUD-2019-007, May 16, 2019)).

Audit of FHFA's Government Purchase Card Program (October 1, 2018 – March 31, 2019)

FHFA, like other federal agencies, uses government purchase cards to make micro-purchases (purchases of \$5,000 or less, as defined by FHFA) to acquire goods and services for its operations, although use of the government purchase card is not limited to micro-purchases. For October 2018 to March 2019, FHFA's purchase card transactions totaled \$533,639.

We previously audited FHFA's purchase card program for fiscal year 2017. In that audit, we found that FHFA had adequate written policies and procedures for the purchase card program. However, those policies and procedures were not always followed, and we made two recommendations to FHFA to address the shortcomings identified. FHFA disagreed with our recommendation to pay a vendor interest penalties owed under the Prompt Payment Act regulations for late payment of a service, and we closed that recommendation as rejected. FHFA agreed with our other recommendation to reinforce, through periodic reminders and staff training, various policies and procedures for the purchase card program. (See OIG, [*Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements*](#) (AUD-2018-011, September 6, 2018)).

Based on the results of that audit and FHFA's planned corrective actions to address the findings in that report, we determined that an audit was warranted of the Agency's purchase card program for the period October 1, 2018, to March 31, 2019, to follow-up on our prior report recommendations and tests of purchase card transactions. The objectives of this audit were to determine whether (1) the Agency's existing controls over the program provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for purchase card transactions were properly supported as a valid use of Agency funds.

We confirmed that FHFA's promised actions to address the fiscal year 2017 report were completed on time. As in our prior audit, we found that FHFA's policies and procedures for its government purchase card program, if implemented as written, prescribe a control regime that provides reasonable assurance that improper payments would not occur or would be detected in the normal course of business. From our tests of 36 purchase card transactions, we found that FHFA's controls over the purchase card program between October 2018 and March 2019 were generally followed. However, our tests did identify some exceptions to FHFA's requirements – failures to document the receipt of goods and services, obtain prior written approval by approving officials, and post transactions immediately to purchase card logs.

While those exceptions were similar to those found by our prior audit, given the dollar amount and nature of those exceptions we made no recommendations in this report. We did note that prudence counsels that these requirements continue to be emphasized by FHFA in the training of cardholders and approving officials. (See OIG, [Audit of FHFA's Government Purchase Card Program \(October 1, 2018 – March 31, 2019\)](#) (AUD-2019-010, August 28, 2019)).

Risk Assessment of FHFA's Government Travel Card Program

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) and implementing OMB instructions require, among other things, that the Inspector General of each executive agency conduct periodic risk assessments of agency travel card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments to guide analyses or audits of these programs as necessary. Where annual travel card spending for an agency exceeds \$10 million, the Charge Card Act and OMB require periodic audits or reviews of the agency's travel card program.

For fiscal year 2018, FHFA reported to OMB that its travel card expenditures were \$2,140,934. Because travel card expenditures for the fiscal year were significantly less than \$10 million, no periodic audit of FHFA's travel card program is required. Nevertheless, in 2018 we did perform an audit of FHFA's fiscal year 2017 travel card program. In our audit, [Audit of FHFA's Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials](#) (AUD-2018-014, September 28, 2018), we reported that FHFA had adequate written policies and procedures for its travel card program. However, those policies and procedures were not always followed. We made one recommendation with which FHFA agreed.

We conducted a risk assessment of FHFA's travel card program for the period July 1, 2018, to June 30, 2019, to follow-up on our prior audit report's recommendation. Based on our risk assessment, we concluded that the risk of illegal, improper, or erroneous purchases and payments through FHFA's travel card program during the assessment period was low. We also found that FHFA's actions to address the fiscal year 2017 deficiencies were timely completed. Accordingly, we determined that an audit of the program was not warranted for fiscal year 2019. (See OIG, [Risk Assessment of FHFA's Government Travel Card Program July 1, 2018-June 30, 2019](#) (OIG-RA-2019-001, September 10, 2019)).

Reports and Recommendations

Below are the 18 audits, evaluations, compliance reviews, management advisory, risk assessment, and white papers published during the period. A list of the recommendations made in these OIG reports is provided in Appendix B. See [OIG's website](#) for a list of all reports issued by OIG since its inception..

Report	Date
Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks (COM-2019-004)	May 7, 2019
FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2018 (AUD-2019-007)	May 16, 2019
Compliance Review of FHFA's Office of Minority and Women Inclusion (COM-2019-005)	June 24, 2019
FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank (AUD-2019-008)	July 10, 2019
Compliance Review of FHFA's Risk Assessments of the Enterprises (COM-2019-006)	August 14, 2019
Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009)	August 28, 2019
Audit of FHFA's Government Purchase Card Program (October 1, 2018 - March 31, 2019) (AUD-2019-010)	August 28, 2019
Management Advisory: Allegations Related to Fannie Mae Senior Executive Spending on Entertainment, Conferences, and Training (January 2016 through September 2018) (OIG-2019-006)	September 4, 2019
Compliance Review of FHFA's Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention (COM-2019-007)	September 9, 2019
Risk Assessment of FHFA's Government Travel Card Program (July 1, 2018 - June 30, 2019) (OIG-RA-2019-001)	September 10, 2019

Report	Date
<u>Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance (EVL-2019-003)</u>	September 10, 2019
<u>FHFA Should Name an Ombudsman and Document the Office of the Ombudsman’s Procedures (AUD-2019-011)</u>	September 16, 2019
<u>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 (AUD-2019-012)</u>	September 17, 2019
<u>FHFA’s Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue (AUD-2019-013)</u>	September 17, 2019
<u>FHFA Should Enhance Supervision of its Regulated Entities’ Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data (EVL-2019-004)</u>	September 23, 2019
<u>The Current Expected Credit Loss (CECL) Methodology and the Enterprises and FHLBanks (WPR-2019-004)</u>	September 24, 2019
<u>2019 Internal Penetration Test of FHFA’s Network and Systems (AUD-2019-014)</u>	September 24, 2019
<u>Enterprise Use of Automated Verifications of Borrower Employment, Income, and Assets (WPR-2019-005)</u>	September 26, 2019

Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority, which is exercised by its Office of Investigations (OI). OI conducts criminal and civil investigations into those, whether inside or outside of government, who engage in waste, theft, or abuse in connection with the programs and operations of the Agency and the regulated entities. OI is staffed with Special Agents (SAs), investigative counsel, analysts, and attorney advisors who work in Washington, D.C., and field offices across the nation. OI has offices located within the metro area of several federal judicial districts that lead the nation in reported instances of mortgage fraud: the Southern District of Florida; the Northern District of Illinois; the Central District of California; and the New York metro area, which includes the Eastern and Southern Districts of New York. To maximize criminal and civil law enforcement efforts, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the U.S. Department of Housing and Urban Development OIG (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.



OI is the only federal law enforcement organization that specializes in deterring and detecting fraud perpetrated against the Enterprises, and its commitment to its mission is essential to the well-being of the secondary mortgage market. Collectively, Fannie Mae and Freddie Mac hold more than \$5 trillion worth of mortgages on their balance sheets. Each year the Enterprises acquire millions of mortgages worth several hundreds of billions of dollars. The potential for fraud in these circumstances is significant. OI also investigates cases involving the 11 regional Federal Home Loan Banks.

To increase OIG's effectiveness, three OIG attorney-investigators have been appointed as Special Assistant U.S. Attorneys in several judicial districts throughout the country. They have been assigned criminal matters arising from OI's investigations in the districts where they have been appointed and have pursued these investigations to conviction and sentencing.

OI Investigations and Results

Working with federal and state prosecutors, OI SAs conduct investigations that may result in criminal charges being brought against individuals and entities that engaged in illegal conduct. Such charges may be resolved by a trial or plea agreement, as well as incarceration, and criminal monetary penalties, including forfeitures and restitution.

This reporting period, as a result of OI’s investigations, 56 defendants were sentenced to an aggregate total of 87 years in prison and criminal monetary penalties over \$25 million.

OI Monetary Results from Criminal Investigations	
April 1, 2019 – September 30, 2019	
Fines*	\$ 17,500
Restitutions	\$ 25,034,216
Total	\$ 25,051,716

*Includes criminal fines, forfeiture and special assessments imposed by federal courts.

Reports, Referrals, Prosecutions, and Convictions	
April 1, 2019 – September 30, 2019*	
Investigative Reports**	50
Criminal Referrals to DOJ	60
Criminal Referrals to State and Local Prosecuting Authorities	28
Indictments and Informations during the Reporting Period that Resulted from Referrals to Prosecutors during Prior Reporting Periods	37
Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals	56
Trials	3
Defendants Tried	3
Convictions/Pleas	41
Sentencings	28

* All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court. This includes both public and non-public documents (sealed). All referrals made to DOJ and to state prosecutors are captured within each investigative file; these actions are tabulated via a statistical report run in OIG’s case management system. Criminal referrals on this chart include both individuals and entities.

** For the purposes of this report, an investigative report is defined as the Report of Investigation finalized at the conclusion of the investigation, prior to case closure.

To date, OI’s criminal investigations have resulted in over \$5 billion in orders of restitution, forfeiture, seizures, fines, and special assessments. Our civil investigations have resulted in over \$63.6 billion in civil settlements, recoveries, and fines.

Mortgage Fraud Investigations

Specialized knowledge of the mortgage industry is a prerequisite to conducting effective and efficient investigations of mortgage fraud schemes and to provide support to prosecutors and fact-finders. The time and effort required to investigate an allegation of mortgage fraud depends upon the particular scheme by which it is perpetrated.

For example, loan origination and **short sale** schemes may be labor intensive due to the extensive review and analysis of mortgage loan files and bank documents necessary to spot indications of fraud. Fraudulent loan modification schemes sometimes involve hundreds of victims and require numerous victim and witness interviews, comprehensive reviews of documents and financial records, and the tracking of illicitly received fees charged by the perpetrators. In condominium or builder bailout scheme investigations, SAs carefully examine mortgage and bank documents to uncover patterns of fraudulent behavior, including undisclosed incentives to attract buyers to purchase and invest in properties. In these investigations, SAs locate and interview investors, learn the nuances of how each scheme is organized, and determine how the perpetrators benefitted financially.

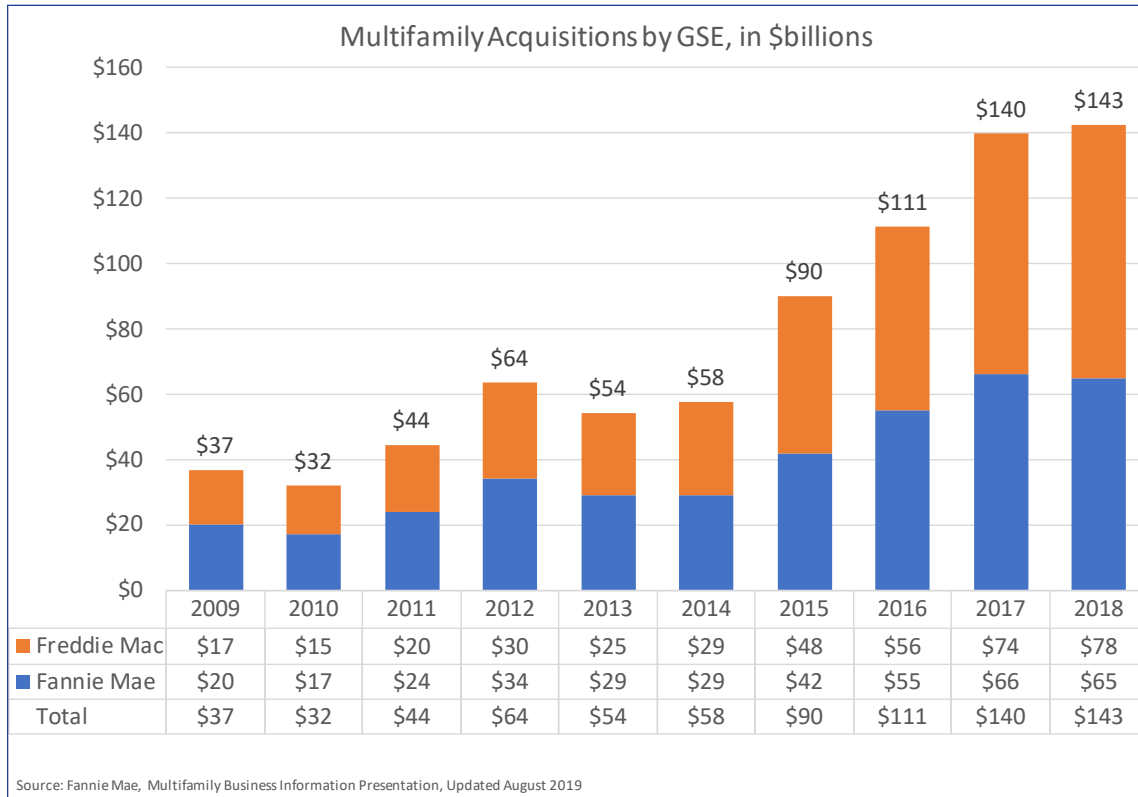
In **bankruptcy** or **foreclosure**-delay schemes, SAs cull documents received by the Enterprises and the FHLBanks, calculate the losses attributable to them, and coordinate with the Office of the United States Trustee to determine whether a fraudulent petition has been filed to initiate a bankruptcy. Other investigations conducted by SAs include **real estate owned (REO)** and adverse possession schemes, which present unique circumstances requiring many hours of intense document analysis, potential victim and witness interviews, and other investigative techniques.

OI Initiatives

In early 2012, OIG began participating in the Residential Mortgage-Backed Securities (RMBS) Working Group. Since then, OIG has reported over \$63.3 billion in recoveries arising from RMBS-related cases. In the 10-plus years since the nation's housing crisis, the RMBS-related cases originating in the Working Group have been resolved.

Recognizing our statutory responsibility to prevent and detect fraud in the operations of FHFA and the Enterprises, we developed several proactive initiatives to police the federal housing finance markets for possible fraud. To develop these initiatives, we monitored and evaluated Enterprise participation in the secondary mortgage market, reviewed risk management data generated by the Enterprises, analyzed Suspicious Activity Reports (SARs) filed by financial institutions, developed data analytics tools to identify patterns and relationships that may be indicative of fraud, and met with stakeholders. Those efforts led to the following ongoing initiatives:

- Multifamily Initiative.** We recognized, based on a review of the Enterprises' participation in the secondary mortgage market, that the multifamily segment of their portfolios had grown significantly over the past few years. During 2018, the Enterprises acquired nearly 50% of all multifamily loans generated in the United States. As of June 30, 2019, the two companies had purchased more than \$610 billion of multifamily loans.



After we received complaints alleging fraud and other criminality involving multifamily projects in the Buffalo, and Rochester, New York, areas, we assembled a team of SAs, attorneys with transactional experience and prosecutorial backgrounds, and financial analysts, and partnered with other law enforcement agencies to investigate the allegations. To date, several individuals have pled guilty to federal fraud charges. The U.S. Attorney for the Western District of New York issued the following statement after the May 2019 superseding indictment of senior executives in the companies involved in these projects: “The value of the loans that were involved in the mortgage fraud scheme which were obtained with false or fraudulent documentation or information exceeds \$500 million. That’s a half billion dollars,” and he estimated that the affected banks and lenders were defrauded out of more than \$25 million dollars. Our investigation remains active.

Our multifamily initiative has generated leads that have resulted in the opening of additional multifamily investigations around the country. Those investigations are ongoing.

- **Proactive Law Enforcement Initiative.** Federal financial institutions, including the FHLBanks and the Enterprises, are required to file SARs with FinCEN when they detect a suspicion of fraud. Historically, we reviewed individual SARs for possible fraud involving the regulated entities and launched investigations when appropriate.

We recognized that data mining of SARs, using customized algorithms and other data mining tools, would be more efficient and accurate than manual searches and would enable us to identify potential indicators of fraud in large batches of data in less time and assign investigative resources more effectively. We developed and implemented such data mining tools, which has led to a number of ongoing investigations.

We are now using data mining tools to review repurchase requests. Loan originators are required to make representations and warranties to the Enterprises that the mortgages being sold meet applicable underwriting standards, and the Enterprises can demand that an originator repurchase mortgages in the event they subsequently determine that the mortgages fail to meet such standards. Using data analytics tools developed by a team of SAs, attorneys, and data programmers, we now review repurchase requests for indicators of potential fraud and refer requests found to have such indicators to SAs for further review. Those reviews are ongoing.

- **Cybercrime Initiative.** A cybercrime is one in which a computer is either the target of a crime or the means by which a crime is committed. Examples of computer crime include, but are not limited to, computer intrusions, denial of service attacks, viruses, and worms.

Recognizing that cybercrimes are increasing, we established a Cyber Investigation Unit (CIU) within OI and assigned SAs with cyber expertise. The CIU SAs are members of the FBI Washington Field Office Cyber Crimes Task Force and have access to many law enforcement databases from which they acquire information about cybercrimes or other cyber threats potentially targeting the Agency and its regulated entities. The CIU SAs also receive information about cyber threats to FHFA and its regulated entities from personnel at the Agency, the Enterprises, and the FHLBanks. As appropriate, the CIU SAs may share certain information from the law enforcement community with FHFA and its regulated entities in order to assist them in defending against a cyber-attack or determining the origin of an attack, provided the source of the information authorizes that release.

Analysis of cyber threat information received from different sources by the CIU SAs has led OI to open criminal investigations that are ongoing and non-public.

Investigations: Criminal Cases

Below we highlight some OIG criminal investigations during this semiannual reporting period in a number of different categories. These investigations resulted in criminal charges, trial convictions, plea agreements, sentencing, and court-ordered fines, forfeitures, and restitution judgments.

A summary of publicly reportable investigative outcomes for each criminal category during this reporting period and a description of each category may be found at Appendices C-J.

Condo Conversion and Builder Bailout Schemes

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often **default** and go into foreclosure, causing the lenders to suffer large losses.

45 Month Prison Sentence in Scheme Involving False Representation About Buyers' Income, Illinois

On June 28, 2019, Steven Bartlett, co-owner of a real estate company, was sentenced to 45 months in prison, three years of supervised release, and ordered to pay nearly \$1.9 million in restitution, jointly and severally, for his role in a scheme to defraud lenders of money and property. Bartlett previously pled guilty to wire fraud.

Bartlett and others helped **straw buyers** obtain at least five mortgage loans valued at approximately \$1.5 million by making false representations in mortgage application documents submitted to lenders. For example, Bartlett and others prepared and submitted documents with fraudulent information about the buyers' income, assets, and source of down payment. In addition, the properties involved in the scheme were sold at inflated prices. Soon after the properties were sold to the straw buyers, the mortgages went into default. The fraud resulted in a combined loss to the Enterprises of approximately \$800,000.

Sentencing in \$21 Million Builder Bailout Fraud Scheme, California

On June 24, 2019, Ali Khatib was sentenced to 27 months in prison, three years of supervised release, and ordered to pay over \$10 million in restitution for his role in a "builder bailout" mortgage fraud scheme.

According to court documents, Khatib, along with several co-conspirators, operated the scheme through Excel Investments and related companies based in Santa Ana and Irvine, California. The

scheme involved kickbacks from condominium builders that Khatib and his co-conspirators hid from lenders to convince them to fund loans in excess of the actual purchase price.

The co-conspirators identified condominium developments around the country where the builders were struggling to sell units and arranged to purchase multiple units at a discount. The builders benefitted by making it appear that their condominiums were selling and maintaining their value, while members of the conspiracy obtained the kickbacks.

The co-conspirators negotiated with condominium builders in California, Florida, and Arizona for discount units. The defendants bought units for themselves, their relatives, and on behalf of “straw buyers” whom they brought into the scheme. They identified straw buyers by looking for individuals with good credit scores and then recruited them into the scheme by giving them an upfront payment for their participation and by presenting the scheme as an investment opportunity that required no down payment and would generate income through rental payments.

To obtain mortgages for the properties, Khatib and other co-conspirators prepared loan applications with false information about the straw buyers—including fake employment, income, and assets, as well as fabricated W-2s, pay stubs and bank statements. The mortgage applications also included false information about the terms of the transactions, such as concealing the large kickbacks from builders through false and misleading HUD-1 forms. Because of the false statements in the fraudulent loan applications, mortgage lenders provided over \$21 million in financing to purchase more than 100 properties.

Many of these loans went into default, and mortgage lenders lost more than \$10 million after foreclosing on the properties.

The Enterprises purchased dozens of these loans on the secondary mortgage market and suffered losses of at least \$1.3 million because of defaults and foreclosures on the properties.

Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers’ income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make.

Sentencing of Co-Owner of Real Estate Brokerage Company, California

On August 8, 2019, Lucy Garcia was sentenced to nine months in prison, two years of supervised release that includes 12 months of home detention, and was ordered to pay \$2,591,000 in

restitution, jointly and severally. Garcia previously pled guilty to conspiracy to commit bank fraud and wire fraud.

Garcia, a co-owner of Jolu, Inc., a mortgage brokerage company, operated an origination scheme wherein she and co-conspirators created and prepared mortgage applications that contained false information about borrowers' income, employment, and assets. Jolu, Inc.'s customers were primarily lower-income, Spanish speaking individuals. As part of the scheme, Garcia and others obtained fraudulent "CPA letters" from tax preparers that falsely stated the mortgage applicants were engaged in a particular business. Fees and commissions for each mortgage were substantial—typically at least \$10,000 per mortgage.

Several of the fraudulently obtained mortgages defaulted, which caused nearly \$2.5 million in losses to the Enterprises.

Guilty Pleas of Loan Processor and Business Operator in Loan Origination Scheme, Illinois

Between May and September 2019, Amber Cook and Irma Holloway pled guilty to bank fraud for their roles in a loan origination scheme. Holloway operated a construction company. Cook was a loan processor. Holloway conspired with Cook and other bank insiders to defraud lenders by obtaining mortgage loans using materially false information. Holloway recruited straw buyers to purchase properties using fraudulent documentation, including fictitious verifications of deposit and documents concerning the buyers' income and assets. Once the loans closed, Holloway provided kickback payments to the straw buyers; these payments were not disclosed to the lenders. Scheme losses are over \$4 million; nearly half of the losses were to the Enterprises.

Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant **upfront fees** or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position.

Sentencing in \$20 Million Mortgage Fraud Scheme, California

On April 1, 2019, Jason Hong was sentenced to 24 months in prison, three years of supervised release, and ordered to pay \$7,883,601 in restitution, jointly and severally, for his role in a mortgage fraud scheme. Hong previously pled guilty to conspiracy.

According to court documents, co-conspirators engaged in a scheme to defraud financially distressed homeowners by offering to prevent foreclosure on their properties through short sales. Instead, the co-conspirators rented out the properties to third parties, did not pay mortgages on the properties, and submitted false and fraudulent documents to mortgage lenders and **servicers** to delay foreclosure.

Hong managed some of the distressed properties and engaged in various tactics to delay lenders' foreclosure on distressed properties, so his co-conspirators could continue collecting rent from the properties. These tactics included fabricating short sale offers using stolen and fictitious identities then submitting those offers to lenders, as well as falsifying financial and tax statements for distressed borrowers, including by forging the signatures of distressed borrowers, and submitting them to lenders.

Trial Conviction of Business Owner and Guilty Plea of Participant in Multi-State Loan Modification Scheme with over 550 Victims, Kansas

On September 30, 2019, Sarah Cordry was found guilty at trial on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud for her role in a loan modification/foreclosure rescue scheme.

Cordry, along with others, operated for-profit companies and devised a scheme to defraud homeowners with false promises of protecting them from foreclosure. Cordry and others conspired to fraudulently promise the victims to lower their interest rates, lower their monthly mortgage payments and help them obtain loan modifications. When victims received foreclosure notices, the co-conspirators told them not to worry about it. In some instances, the victims would stop making their monthly mortgage payments to their lenders and instead, make payments to companies controlled by the co-conspirators, who used the victims' monies for personal gain.

Over 550 victims have been identified in 24 states. The victims suffered over \$1.2 million in direct monetary loss; this loss does not include additional fees paid by victims to their lenders or losses to the Enterprises and lenders caused by subsequent foreclosures.

During this reporting period, co-conspirator Tyler Korn was sentenced to 51 months in prison, three years of supervised release, and ordered to pay \$1,313,508 in restitution, jointly and severally, for his role in this scheme. Korn previously pled guilty to conspiracy to commit mail and wire fraud.

Losses to the Enterprises and lenders are nearly \$20 million.

Short Sale Schemes

Short sales occur when a lender allows a borrower who is “**underwater**” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale.

Licensed Real Estate Agent Pleads Guilty in Short Sale Fraud Scheme, Florida

On August 26, 2019, Brannon Rue pled guilty to false statements to a federally-insured financial institution.

According to the plea agreement, Rue was a licensed real estate agent in Florida who marketed himself as a specialist in obtaining short sales for distressed homeowners facing foreclosure. Rue's clients sold their properties to Hatley Partners, a company controlled by Rue, which allowed Rue to negotiate a short sale with their bank.

Rue's assistant took listing photos of clients' properties and entered the properties on the Multiple Listing Service; however, there was no legitimate purpose to do this because the short sale had been arranged between the seller and Hatley Partners. Rue, as the real estate agent for the short sale transactions and owner of Hatley Partners profited from both sides of the transactions. He concealed this fact from lenders and submitted fraudulent arms-length affidavits, material facts that would have prohibited the short sales from occurring.

Losses to the Enterprises and lenders because of this scheme are approximately \$1.8 million.

Three Defendants Plead Guilty in Mortgage and Short Sale Fraud Scheme, California

Between July 26 and 29, 2019, Jyoteshna Karan and Praveen Singh each pled guilty to conspiracy to commit mail fraud and bank fraud and Nani Isaac pled guilty to making false statements to a bank for their respective roles in a mortgage and short sale fraud scheme.

According to court documents, Karan and Singh obtained loans from lenders to purchase real property by making material misrepresentations regarding borrower income, assets, employment status, and intent to occupy the property. After obtaining the property, Karan and Singh allowed the loans to become distressed and then enlisted straw buyers, including relatives, to execute fraudulent short sales. This scheme allowed Singh and Karan to obtain debt relief through the short sales. In some cases, Karan and Singh profited from short sales on other properties where they were not the original purchaser. Isaac was the seller for one such short sale, falsely stating that the buyer was not her family member when, in reality, the buyer was her nephew.

Fannie Mae suffered over \$1 million in losses because of this scheme.

Two Real Estate Brokers Plead Guilty in Short Sale Fraud Scheme, New Jersey

On May 30, 2019, Steve Kang and Young Jin Son were charged by information and pled guilty to bank fraud and wire fraud for their respective roles in a scheme to defraud financial institutions and others.

According to documents filed in these cases and statements made in court, Kang, Son, and others fraudulently induced mortgage lenders to participate in “short sale” transactions. Kang, a real estate broker and agent, admitted to a scheme in which he sold his own properties and recruited others to sell properties in short sales to a co-conspirator, Mehdi Kassai. Kassai was able to obtain the properties for substantially less than the properties were worth using false documents, straw buyers, cosmetic damage to properties, and restricting the ability of others to bid on and buy those properties. Kassai then sold many of those properties to third parties at a substantial profit. Kang defrauded financial institutions and others of \$2.7 million.

Son, a real estate broker and agent, admitted recruiting others to sell properties in short sales to Kassai, who obtained the properties for substantially less than they were actually worth through false documents, straw buyers, cosmetic damage to properties, and restricting the ability of others to bid and buy those properties. Kassai sold many of those properties to third parties at a substantial profit. Son defrauded financial institutions and others of \$1.9 million.

Kassai previously pled guilty to bank fraud, wire fraud, and money laundering for his role in the scheme and is awaiting sentencing.

Fannie Mae was the investor in some of the properties involved in this scheme; most of the lenders defrauded are FHLBank member banks. Loss calculations are ongoing.

Multifamily Schemes

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities.

Superseding Indictment Filed in Multimillion-Dollar Mortgage Fraud Scheme, New York

On May 21, 2019, Robert Morgan, Frank Giacobbe, Todd Morgan, and Michael Tremiti were charged by superseding indictment for their roles in a half billion-dollar mortgage fraud scheme. Additional charges were filed for two of the defendants related to a scheme to defraud insurance companies.

According to the superseding indictment, the defendants allegedly conspired with Kevin Morgan, Patrick Ogiony, Scott Cresswell, and others to fraudulently obtain moneys, funds, credits, assets, securities, and other property from financial institutions and the Enterprises.

In the wire fraud conspiracy to defraud insurers, Todd Morgan and Robert Morgan are accused of conspiring with Kevin Morgan and Scott Cresswell to present false and inflated contracts and

invoices for repairs to insurers for damages to properties in Robert Morgan’s real estate portfolio. Previously, Kevin Morgan and Patrick Ogiony pled guilty to conspiracy to commit bank fraud and Scott Cresswell pled guilty to conspiracy to commit wire fraud for their roles in this scheme.

The defendants in the superseding indictment allegedly provided false information to financial institutions and the Enterprises that overstated the incomes of properties owned by Morgan Management or certain principals of Morgan Management. The false information induced financial institutions to issue loans they otherwise would not have issued had they been provided with truthful information.

Robert Morgan was the Chief Executive Officer of Morgan Management. Morgan Management allegedly provided property management, accounting, and financial reporting services for the properties owned by limited liability companies controlled by Robert Morgan. The defendants allegedly conspired to manipulate income and expenses for properties to meet debt service coverage ratios (DSCRs) required by lending institutions. The manipulation included, among other things, removing expenses from information reported to lenders and keeping two sets of books for at least 70 properties, with one set of books containing true and accurate figures and a second set of books containing manipulated figures to be provided to lenders in connection with servicing and re-financing loans.

The defendants allegedly employed various mechanisms to mislead inspectors, appraisers, financial institutions, and the Enterprises with respect to the occupancy of properties. Additionally, they allegedly inflated the amounts owed on properties by providing false documentation of obligations purportedly associated with the properties, misrepresented the actual purchase prices of properties by providing false contracts and contract prices, and presented false construction contracts and invoices.

The total loss sustained by financial institutions and the Enterprises throughout the mortgage fraud scheme is currently estimated to exceed \$25 million. The loss resulting from the insurance fraud scheme is currently estimated at approximately \$3 million.

Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners.

Fraud Scheme Operator Sentenced to 20 Years in Federal Prison and Co-Conspirators Plead Guilty for Conning Elderly Victims Out of Their Homes and Money, California

On September 30, 2019, Michael Henschel was sentenced to 20 years in prison and three years of supervised release for running a multimillion-dollar real estate scheme that conned elderly people out of their homes, gouging them with fraudulent threats of litigation and extorting monthly payments for illegal foreclosure and eviction delay. Henschel previously pled guilty to mail fraud.

Henschel and his co-conspirators deceived vulnerable homeowners – typically elderly people in financial distress, some of whom spoke limited English. Henschel tricked the homeowners into signing fraudulent deeds on their properties with false promises that the deeds would help homeowners protect properties from creditors or enable them to get equity out of the properties. Unbeknownst to his victims, the deeds described fake loans that the homeowners were supposedly guaranteeing for third parties, and in signing the deeds, they were pledging their houses as collateral for these fake loans. Henschel used the fraudulent deeds to steal homes and money from the victims.

Henschel’s criminal conduct devastated his victims, leaving some of them penniless. Many other victims had to face financial insecurity – even homelessness – in their old age as they struggled to pay for basic necessities such as food and clothing. Several victims lost homes that their families had owned for generations.

The real estate fraud scheme had two parts: one involving property theft and litigation extortion, and the other involving illegal foreclosure and eviction delay.

In the property theft and litigation extortion part of the scheme, Henschel filed fraudulent documents on titles to homeowners’ properties and used these fraudulent filings to steal properties from some victims outright and to extort settlement payments from other victims in civil litigation. Henschel weaponized the state court litigation system against homeowners, using his specialized training and knowledge of the law (he attended law school but was never admitted to practice) to extort settlements from homeowners by dragging them through stressful lawsuits.

“Many thanks to the investigators and prosecutors who have finally brought Mickey Henschel to justice. He has been a prolific abuser of the bankruptcy courts for many years. The bankruptcy court referred him for criminal investigation over 20 years ago, and he has been behind many fraudulent foreclosure schemes since that time. It is wonderful to see this abuse of the courts, distressed homeowners and lenders addressed.”



Hon. Maureen A. Tighe
Chief Bankruptcy Judge
United States Bankruptcy Court,
Central District of California

In the foreclosure rescue part of the scheme, Henschel and his co-conspirators used fraudulent filings to charge homeowners fees to delay foreclosure and eviction actions. Henschel and the others had homeowners sign fraudulent deeds that transferred interests to debtors in bankruptcy cases – but the bankruptcies were fraudulent and used solely as part of the fraudulent scheme, not as part of any genuine effort to restructure or eliminate debts.

Many of the fraudulent bankruptcies were filed in the names of fictional people and entities, and some involved stolen identities. Henschel and his co-conspirators sent fake deeds and fraudulent bankruptcy petitions to trustees to stop foreclosure sales. They delayed evictions in a similar way, mainly by filing fraudulent documents in state court unlawful detainer actions and then sending fraudulent documents to various county sheriff's offices.

Losses associated with this scheme are more than \$17 million. Henschel's restitution hearing is scheduled for later this year; loss calculations are ongoing.

During this reporting period, between April and May 2019, Juan Velasquez, Claudia Islas, and Camerino Islas pled guilty to conspiracy to commit mail fraud and bankruptcy fraud and Eugene Fulmer pled guilty to mail fraud and bankruptcy fraud for their roles in this scheme. All four co-conspirators are scheduled to be sentenced later this year.

Guilty Plea of Paralegal in Foreclosure-Bankruptcy Fraud Scheme, Florida

On September 24, 2019, Eric Liebman pled guilty to conspiracy to commit bankruptcy fraud. According to the plea agreement, Liebman worked as a paralegal at a law firm and offered foreclosure rescue program services to distressed homeowners. As part of his solicitation, Liebman promised that, in exchange for executing quitclaim or warranty deeds for their properties, he would negotiate with the mortgage creditors to obtain the mortgage notes or renegotiate the mortgage notes and prevent foreclosure.

Liebman recorded quitclaim and warranty deeds, taking possession of the homes, and simultaneously collected rent payments from distressed homeowners while they were relying on false promises to stop their mortgage foreclosure and, in some instances, to sell their property through a short sale.

Liebman prepared and filed fraudulent bankruptcy petitions in the names of distressed homeowners and moved distressed homeowners from their properties to rent or sell the properties to third-parties.

Fannie Mae, as an investor in this scheme, suffered losses.

In related cases, between April and May 2019, Juan Velasquez, Claudia Islas, and Camerino Islas pled guilty to conspiracy to commit mail fraud and bankruptcy fraud for their roles in this scheme.

Three Sentenced in \$2 Million Mortgage Fraud Scheme, California

On July 29, 2019, Mark Bellinger was sentenced to eight years in prison and ordered to pay nearly \$200,000 in restitution for his role in the operation of a \$2 million mortgage fraud scheme throughout southern California. Bellinger previously pled guilty to 171 felony counts of multiple charges, including conspiracy, procuring or offering a false or forged instrument, grand theft, and identity theft.

According to court documents, Bellinger and co-defendants operated a fraudulent insurance company, “SafeCare,” which promised to provide home loan services at a low monthly price to primarily Latino and African American families. During this time, the defendants would delay foreclosures and eviction actions by filing false bankruptcy and other court documents under fictitious names. They would instruct victims to deposit illegal advance fees and other large payments into a bank account controlled by the defendants. When the promised loan did not come through, they would proceed with the fabricated filings.

In related cases, between May and September 2019, Andrew Valles was sentenced to 13 years in prison and ordered to pay over \$2.3 million in restitution and Jemal Lilly was sentenced to 3 years and 8 months in prison and ordered to pay \$411,185 in restitution. Valles previously pled guilty to grand theft, filing false or forged documents in a public office, conspiracy, and identity theft while Lilly previously pled guilty to grand theft.

Losses to the Enterprises, lenders, and victims are approximately \$2 million.

Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

Former Bank Executive Found Guilty at Trial in \$15 Million Construction Loan Fraud Scheme, Kansas

On August 19, 2019, Troy Gregory was found guilty by a federal jury on charges of bank fraud and false statements for his participation in a bank fraud scheme to obtain a \$15 million construction loan for certain bank customers based upon false and fraudulent representations. The loan was shared among 26 Kansas banks.

According to evidence submitted at trial, Gregory was a bank executive and loan officer who made millions of dollars in loans to a group of borrowers, Bluejay Properties, LLC (Bluejay), who were struggling to make payments on the loans. Beginning in approximately late 2007, Gregory began the process of making a \$15.2 million construction loan to build an apartment complex to Bluejay. Gregory's bank shared this loan with 25 other Kansas banks. Gregory made and caused others to make false statements to the banks about the strength of the borrowers, the debt status of the apartment property and the existence of approximately \$1.7 million in certificates of deposit for collateral on the loan, all to get the loan approved.

Instead of using the loan funds promised for building the apartments, Gregory immediately diverted over \$1 million of the loan to pay for part of the certificates of deposit pledged as collateral, pay off debt on the apartment property, and make payments on unrelated loans. Other Kansas banks that shared in this loan would not have participated in the loan without the false representations and promises. The banks ultimately wrote off millions of dollars on the \$15.2 million construction loan, the evidence showed. University National Bank, Gregory's employer, is a member bank of the FHLBank of Topeka.

Federal Home Loan Bank Executives Plead Guilty, Two Pleas Occurring Mid-Trial, Texas

During July 2019, several days into their trial, Terence Smith, former FHLB-Dallas CEO and President, and Nancy Parker, former Chief Information Officer, both pled guilty to conspiracy to make false statements to a Federal Home Loan Bank.

In plea papers, the pair admitted that they submitted dozens of fraudulent expense reports to FHLB, claiming they had attended professional conferences they never visited -- prompting FHLB to foot the bill for what was personal travel to Florida, California, and Nevada. They also admitted to repeatedly falsely reporting their number of unused vacation hours.

The trial exhibit below shows one of the hotels used for personal travel by the defendants for which a fraudulent expense report was submitted to FHLB.



The following two trial exhibits were presented as evidence of the defendants discussing travel plans for a lavish vacation and attending a wine dinner during the trip.

Fwd: Next years wine excursion

From: Terry Smith <Terry.Smith@fhlb.com >, Terry Smith </O=FHLB/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENT... Show all
To: [REDACTED]@fhlb.com>
Cc: [REDACTED]
Sent: August 23, 2009 8:40:18 PM EDT
Received: August 23, 2009 8:40:23 PM EDT

Let's talk about this tomorrow.

Begin forwarded message:

From: [REDACTED]@fhlb.com>
Date: August 23, 2009 6:38:06 PM MDT
To: Terry Smith & lt;Terry.Smith@fhlb.com>, Nancy Parker & lt;Nancy.Parker@fhlb.com>
Subject: Re: Next years wine excursion

I vote for Sonoma again

On Aug 23, 2009, at 7:15 PM, Terry Smith wrote:

Do we want to go back to sonoma in may or try somewhere else.



The defendants' pleas came on the heels of a pre-trial plea by former FHLB-Dallas Chief Financial Officer Michael Sims, who pled guilty to misprision of a felony, or concealing knowledge of the actual commission of a felony, on June 27, 2019.

According to the indictment, the scheme cost FHLB more than \$1.2 million -- \$780,000 in travel expenses, including airfare, limousine rides, concerts, vineyard tours, luxury hotel rooms, and lavish meals for Smith, Parker, Sims, and several colleagues, and \$450,000 in unused vacation time reimbursements.

Smith and Parker, as part of their plea agreements, both agreed to repay FHLB-Dallas for attorneys' fees incurred by the bank and its insurance carrier; Smith will pay \$4.2 million and Parker will pay just over \$227,900. Sims will also be required to pay restitution.

Sentencing of Former Relationship Manager and Doctor and Guilty Plea of Business Owner in Bank Fraud Scheme, Delaware

On September 30, 2019, Tae Kim was sentenced to 18 months in prison, three years of supervised release, and ordered to pay \$2,459,150 in restitution for his role in a bank fraud scheme. Kim previously pled guilty to bank fraud and conspiracy to commit bank fraud.

According to court documents, Kim, a former relationship manager (loan officer) for Citibank and Wilmington Savings Fund Society, FSB (WSFS Bank), pled guilty to his role in a scheme to defraud the bank in connection with loans obtained by one of his customers, Dr. Zahid Aslam. Kim's conduct involved allowing Aslam to use third-party nominees to obtain loans on Aslam's behalf at Citibank and WSFS Bank. These loans, which Aslam could not have otherwise qualified for on his own, fueled the growth of his medical practices. Kim acknowledged that he was responsible for additional misconduct, including: (1) submitting false information about Aslam's available deposits at Citibank in connection with a loan application at Cecil Bank, which was eventually declined; and (2) falsifying the scope of Aslam's liabilities in connection with multiple loans at WSFS Bank. Aslam's loans eventually went into default. Aslam pled guilty to making false statements to a financial institution and received a sentence of 30 months in prison and three years of supervised release.

In a related case during the reporting period, Mehul Khatiwala, a business owner, pled guilty to conspiracy to commit bank fraud and bank fraud in connection with a scheme to fraudulently obtain loans from Cecil Bank to purchase hotels and a multifamily residential property, resulting in losses of more than \$3.5 million.

Citibank, WSFS Bank, and Cecil Bank are member banks of the FHLBanks of New York, Pittsburgh, and Atlanta, respectively.

Ex-Mirae Bank Executive Sentenced to More than 5 Years in Prison for Loan Fraud, California

On May 20, 2019, Ataollah Aminpour, the former chief marketing officer at the now-defunct Mirae Bank, was sentenced to 70 months in prison, five years of supervised release, and ordered to pay over \$7.5 million in restitution for his role in a scheme that caused the lender to issue more than \$15 million in fraudulent loans, and ultimately caused the bank to suffer severe losses. Aminpour previously pled guilty to making a false statement to a financial institution.

According to court documents, Aminpour held himself out as a successful businessperson who could help people obtain financing for gas station and car wash businesses with little or no down payment. In some instances, Aminpour would identify a business for the borrower to purchase and would negotiate the sales price. On the commercial loan applications that Aminpour would submit to the bank on behalf of the borrower, however, Aminpour would overstate the actual

purchase price of the business, thereby causing the bank to issue inflated loan amounts that were not fully secured.

Aminpour, along with other participants, submitted fraudulent commercial loan applications to Mirae Bank, a federally insured financial institution. In his role as a senior bank executive, Aminpour submitted and knowingly caused others to submit false information not only about the true purchase price of the business but also about the assets of the borrowers and the finances of the businesses being purchased. Aminpour also allowed borrowers to circumvent the bank's down payment requirements by arranging for money to be transferred into escrow accounts so it would falsely appear to Mirae Bank that the borrowers were making large down payments. As a result, borrowers were able to acquire businesses with little to no money down, with Aminpour earning commissions as a result and, in some instances, with Aminpour misappropriating the excess loan proceeds for himself.

In his plea agreement, Aminpour further admitted that his scheme involved false statements in six loan applications for loans totaling \$16.7 million, and that losses on those loans exceeded \$7.5 million. In addition to the loans charged as part of the fraud in this case, Aminpour referred approximately \$150 million in loans to Mirae Bank, and the losses on those loans played a significant role in the bank's collapse in 2009, according to court documents.

Mirae Bank, a member bank of the FHLBank of San Francisco, ultimately failed in part due this fraud scheme.

Law Enforcement Outreach

OIG develops public-private partnerships where appropriate. During this reporting period, OIG delivered 40 fraud awareness briefings to different audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; Federal Deposit Insurance Corporation (FDIC)-OIG; IRS-CI; the Financial Crimes Enforcement Network; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae and Freddie Mac to combat fraud.

During this reporting period, OIG worked with additional local and state partners, including the Ventura County (CA) District Attorney's Bureau of Investigation, the Stanislas County (CA) District Attorney's Office; the Los Angeles Police Department; the Orange County (CA) District Attorney's Office; the Bergen County (NJ) Prosecutor's Office; the Los Angeles County Sheriff's Department; the Johnson County (KS) District Attorney's Office; the Alameda County (CA)

District Attorney’s Office; the Los Angeles County Recorder’s Office; the Alameda County (CA) Recorder’s Office; the San Diego County (CA) Recorder’s Office; the California Department of Justice; the California Department of Insurance; the NY/NJ El Dorado Financial Crimes Task Force; the Florida Department of Law Enforcement; the Broward County (FL) Sheriff’s Office; the Jupiter (FL) Police Department; the Palm Beach (FL) Sheriff’s Office; Pasco County (FL) Sheriff’s Office; the Georgia Bureau of Investigations; the Illinois Department of Financial and Professional Regulation; the Dallas District Attorney’s Office; the Cedar Hill (TX) Police Department; and the Kirkland (WA) Police Department.

Investigations: Administrative Actions

In addition to the criminal cases brought as a result of OIG investigations, OI’s investigative work regularly results in administrative referrals to other entities for action. For example, a criminal case of mortgage fraud that results in a guilty plea by a licensed real estate agent, attorney, or certified public accountant for participation in a bank fraud scheme might result in a referral by OIG to a state licensing body for disciplinary actions. When a real estate professional is prosecuted for mortgage fraud, that prosecution may cause OIG to refer the matter to another federal agency for possible suspension or debarment of that individual from participation in federal programs. During this reporting period, OIG made 59 such referrals for suspension and debarment.

Suspended Counterparty Referrals

FHFA has adopted a Suspended Counterparty Program under which it issues “suspension orders directing the regulated entities to cease or refrain” from doing business with counterparties (and their affiliates) that were previously found to have “engaged in covered misconduct.” Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, “covered misconduct” includes convictions or administrative sanctions within the past three years based on fraud or similar misconduct in connection with the mortgage business. FHFA issues suspension orders if the misconduct “is of a type that would be likely to cause significant financial or reputational harm to a regulated entity or otherwise threaten the safe and sound operation of a regulated entity.”³

³ [FHFA Suspended Counterparty Program, 12 C.F.R. pt. 1227](#) (2019).

During this reporting period, OIG made 15 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program and additional suspension/debarment referrals to other agencies, summarized below.

Administrative Actions	
April 1, 2019 – September 30, 2019	
Suspension/Debarment Referrals to Other Agencies	59
Suspended Counterparty Program Referrals to FHFA	15

OIG's Regulatory Activities and Outreach

Regulatory Activities

Pursuant to the Inspector General Act, OIG assesses whether proposed legislation and regulations related to FHFA are efficient, economical, legal, or susceptible to fraud and abuse. OIG is currently assessing proposed, interim final, and final rules published by FHFA in the *Federal Register*. Any recommendations or comments upon those rules will be made after these assessments conclude.

Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system, and the financial crisis has shown that financial distress at the Enterprises can threaten the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy, and decisions were made to invest \$191.5 billion in the Enterprises. The continuing significant role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during this reporting period include the following:

Congress

To fulfill its mission, OIG works closely with Congress and is committed to keeping it fully apprised of our oversight of FHFA. During this semiannual reporting period, OIG provided information to and discussed OIG work with congressional staff as requested.

Hotline

The OIG hotline serves as a vehicle through which Agency, Enterprise, and FHLBank employees

and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. Potential criminal violations are investigated by OI, and civil or administrative matters are referred to the appropriate senior career executive in an OIG operating division for investigating. During this reporting period, 828 discrete contacts to the hotline were made involving tips, complaints and referrals (TCRs), and 143 separate TCRs were logged by the hotline.

For more information about OIG's hotline, including OIG contact information, visit the [Report Fraud](#) page.

Close Coordination with Other Oversight Organizations

During the reporting period, OIG maintained active participation in coordinated oversight activities involving the following organizations:

FBI Cybercrimes Task Force

The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG assigns special agents to assist with task force law enforcement activities. This multiagency task force focuses on investigating cybercrimes. OIG makes these assignments to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort helps prosecute cybercriminals and stop cyberattacks made against institutions maintaining PII, trade secrets, and financial data.

CIGIE

OIG actively participates in several CIGIE committees and working groups: the Audit Committee, the Inspection and Evaluation Committee, and the Investigations Committee.

Council of Inspectors General on Financial Oversight (CIGFO)

CIGFO was created by the Dodd-Frank Act to oversee FSOC, which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The FHFA IG is a statutory member of CIGFO, along with the IGs of Treasury, FDIC, the Securities and Exchange Commission, and others. By statute, CIGFO may convene working groups to evaluate the effectiveness and internal operations of FSOC.

During the reporting period, OIG participated in a CIGFO working group that assessed FSOC's monitoring of international financial regulatory proposals and developments. The resulting [audit report](#), issued May 3, 2019, concluded that FSOC has a process for monitoring international financial regulatory proposals and developments. During the audit, several FSOC members and/or representatives offered suggestions for enhancing the monitoring process. In the audit report,

CIGFO encouraged FSOC to consider incorporating into its process the suggestions made by its members to the extent the suggestions are consistent with FSOC's focus on identifying and addressing threats to the stability of U.S. financial system.

Also, in July 2019, CIGFO approved a report titled [Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations](#) to consolidate and provide insight into cross-cutting management and performance challenges facing financial-sector regulatory organizations as identified by the CIGFO members, including the FHFA IG. Seven cross-cutting challenges were reported: Enhancing Oversight of Financial Institution Cybersecurity, Managing and Securing Information Technology at Regulatory Organizations, Sharing Threat Information, Ensuring Readiness for Crises, Strengthening Agency Governance, Managing Human Capital, and Improving Contract and Grant Management.

Further information about CIGFO is available on its [website](#).

Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak with officials at the FHLBanks and the Enterprises to benefit from their insights. We also make presentations to academic and industry groups. Recent presentations include: the U.S. Trustee Program (nationwide), the Cook County Regional Organized Crime Annual Conference, the Palm Beach County (FL) Economic Crimes/Intelligence Working Group, the Florida Department of Business and Professional Regulation, the Los Angeles Real Estate Fraud Task Force, the Florida Department of Business and Professional Regulation Investigators, the Association of Certified Fraud Examiners, the Glenn Dale Elementary School, the Treasure Coast (FL) Economic Crimes Working Group, and financial fraud protection presentations to seniors.

Appendices

Appendix A: Information Required by the Inspector General Act

Section 5(a) of the Inspector General Act, as amended, provides that OIG shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing our activities during the immediately preceding six-month periods ending March 31 and September 30.

Below, OIG presents a table that directs the reader to the pages of this report on which various information required by the Inspector General Act, as amended, may be found.

Source/Requirement	Pages
Section 5(a)(1) – A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.	9-13, 17-35
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	17-35, 69-96
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	69-96
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	36-58, 97-114
Section 5(a)(5) – A summary of each report made to the Director of FHFA about information or assistance requested and unreasonably refused or not provided.	N/A
Section 5(a)(6) – A listing, subdivided according to subject matter, of each audit and evaluation report issued by OIG during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.	17-35, 64
Section 5(a)(7) – A summary of each particularly significant report.	14-35
Section 5(a)(8) – Statistical tables showing the total number of audit and evaluation reports and the total dollar value of questioned and unsupported costs.	3, 64
Section 5(a)(9) – Statistical tables showing the total number of audit and evaluation reports and the dollar value of recommendations that funds be put to better use by management.	3, 64
Section 5(a)(10)(A) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.	64
Section 5(a)(10)(B) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency.	64

Source/Requirement	Pages
Section 5(a)(10)(C) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.	69-96
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	64
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	64-65
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	65
Section 5(a)(14) – An appendix containing the results of any peer review conducted by another IG; or the date of the last peer review if no peer review was conducted during the reporting period.	65-66
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	65-66
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	65-66
Section 5(a)(17) – Statistical tables showing, for the reporting period, the total number of: investigative reports issued; persons referred to DOJ for criminal prosecution; persons referred to State and local prosecuting authorities for criminal prosecution; and indictments and criminal informations that resulted from any prior referral to prosecuting authorities.	37
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	37
Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	66
Section 5(a)(20) – A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences FHFA imposed to hold that official accountable.	66
Section 5(a)(21) – A detailed description of any attempt by FHFA to interfere with the independence of OIG, including with budget constraints designed to limit OIG’s capabilities, and incidents where FHFA has resisted or objected to OIG oversight activities or restricted or significantly delayed access to information.	68
Section 5(a)(22)(A) – Detailed descriptions of the particular circumstances of each evaluation and audit conducted by OIG that is closed and was not disclosed to the public.	67-68
Section 5(a)(22)(B) – Detailed descriptions of the particular circumstances of each investigation conducted by OIG involving a senior Government employee that is closed and was not disclosed to the public.	66-67

Reports Identifying Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management Issued During the Semiannual Period

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its audit reports, inspection reports, and evaluation reports issued during the semiannual period and include for each report, where applicable, questioned costs, unsupported costs, and funds to be put to better use. Section 5(a)(8) and section 5(a)(9), respectively, require OIG to publish statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. Oversight conducted by OIG is not limited to reports issuing from inspections, audits, and evaluations. OIG also issues other reports in furtherance of its mission, including management alerts and advisories, special reports, and compliance reviews. During this reporting period, the reports that OIG issued did not include recommendations with dollar values of questioned costs, unsupported costs, or funds to be put to better use by management.

Reports with No Management Decision

Section 5(a)(10)(A) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. There were no reports issued before April 1, 2019, that await a management decision.

No Agency Response Within 60 Days

Section 5(a)(10)(B) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency. There were no reports issued before April 1, 2019, for which OIG did not receive a response within 60 days of providing the report to the Agency for comment.

Significant Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended September 30, 2019, there were no significant revised management decisions by FHFA.

Significant Management Decisions with Which the Inspector General Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in

disagreement. During the six-month reporting period ended September 30, 2019, there were no significant management decisions by FHFA with which the Inspector General disagreed.

Federal Financial Management Improvement Act of 1996

Section 5(a)(13) of the Inspector General Act, as amended, requires that OIG report information concerning instances of and reasons for failures to meet any intermediate target dates from remediation plans designed to remedy findings that the Agency's financial management systems do not comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. For the six-month reporting period ended September 30, 2019, this reporting provision did not apply to the Agency or OIG.

HERA requires the GAO to audit FHFA financial statements. In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2018 and 2017 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be material weaknesses or significant deficiencies. GAO also reported that its test for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no reportable instances of noncompliance.

Peer Reviews

Sections 5(a)(14), (15), and (16) of the Inspector General Act, as amended, require that OIG provide information relevant to the semiannual period on any peer reviews of OIG, unimplemented recommendations from any peer reviews of OIG, and any peer reviews conducted by OIG.

During this reporting period, the Library of Congress OIG completed a peer review of our audit organization and issued a final report on September 11, 2019. OIG received an external peer review rating of pass, the highest rating an audit organization can receive.

During this reporting period, a CIGIE external peer review team led by the United States Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), conducted a peer review of our OE and OCom functions and issued its final report on September 10, 2019. The review team recognized several of our practices as "best practices." The team also determined that our policies and procedures met the seven Blue Book standards addressed in that review: quality control, planning, data collection and analysis, evidence, records maintenance, reporting, and followup. The team concluded that the six evaluation reports it tested met the Blue Book standards, but one report did not comply with internal policies and procedures for planning. No recommendations were issued from that review.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission (NRC) OIG and reported on July 12, 2017. NRC-OIG issued an Opinion Letter and a Letter of Observations detailing the results of its review. In the Opinion Letter, the NRC-OIG reported that OIG’s system of internal safeguards and management procedures for our investigative function is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. In the Letter of Observations, NRC-OIG recognized OIG for employing five “best practices” in its investigative operations.

Copies of our peer review reports are on OIG’s website under [Current Peer Review Reports](#).

During this semiannual reporting period, OIG did not complete any peer reviews of another Office of Inspector General.

Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation

In accordance with the Inspector General Act, as amended, Sections 5(a)(19), (20), (22)(B), and 5(e), OIG is required to report certain information regarding (1) investigations involving senior government employees (SGEs) or (2) government officials found to have engaged in whistleblower retaliation. In this section, we include the results of OIG administrative inquiries as appropriate.

Sections 5(a)(19) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation it conducted involving an SGE when allegations of misconduct were substantiated. OIG does not have any reportable information during the applicable time frame.

Sections 5(a)(20) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on any instance of whistleblower retaliation by an official found to have engaged in retaliation. OIG does not have any reportable information during the applicable time frame.

Sections 5(a)(22)(B) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation involving an SGE that is closed and was not disclosed to the public.

During this reporting period, OIG completed an administrative inquiry of an anonymous hotline complaint alleging disparate treatment in pay and promotion as a result of inactions by two

FHFA SGEs. OIG did not find sufficient evidence to support a conclusion that any violation of law, rule, or regulation occurred, and the matter was closed.

During this reporting period, OIG completed an administrative inquiry of a hotline complaint alleging retaliatory behavior by a FHFA SGE as a result of a complaint that FHFA had allegedly received from an executive at a regulated entity regarding action during an examination. During the course of this inquiry, the hotline complainant withdrew the complaint. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

OIG also conducted an administrative inquiry of whether an FHFA SGE's alleged outside activity created a conflict of interest. OIG did not find evidence sufficient to support the claims and the matter was closed.

During this reporting period, OIG completed an administrative inquiry of an anonymous hotline complaint alleging that an FHFA SGE improperly promoted another FHFA employee and enabled the improper hiring of an intern related to an FHFA SGE. OIG did not find sufficient evidence to substantiate the allegations. The anonymous complaint also alleged that two other FHFA SGEs permitted the improper hiring of interns by an FHFA division. OIG did not find sufficient evidence to support a conclusion that any violation of law, rule, or regulation occurred. This hotline matter was closed.

OIG also conducted an administrative inquiry of a hotline complaint alleging that an FHFA SGE did not have a sufficient background investigation on file. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

Additionally, during the prior reporting period, OIG completed an administrative inquiry into anonymous hotline allegations that the children of three FHFA SGEs were improperly hired for summer internships (See OIG, [*FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees*](#) (OIG-2019-004, March 26, 2019)). During this reporting period, we examined a potential lack of candor by an FHFA SGE related to that inquiry. OIG did not find sufficient evidence to support a conclusion of misconduct, and the matter was closed.

Audits or Evaluations that Were Closed and Not Disclosed

Sections 5(a)(22)(A) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—the particular circumstances of each inspection, evaluation, and audit OIG conducted that is closed and was not disclosed to the public. During this reporting period, OIG

did not close any inspection, evaluation, or audit without disclosing the existence of the report to the public. OIG issued several reports during this reporting period that contained information that is privileged, confidential, or could be used to circumvent FHFA's internal controls, and, accordingly, OIG has not publicly disclosed such contents. We have provided unredacted reports to our congressional oversight committees.

Interference with Independence

Section 5(a)(21) of the Inspector General Act, as amended, requires that OIG report any attempt by FHFA to interfere with the independence of the office, including through budget constraints designed to limit OIG's capabilities and resistance or objection to OIG's oversight activities or restricting or significantly delaying access to information. OIG does not have any reportable information during the applicable time frame.

Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote economy, efficiency, and effectiveness in the Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Since OIG began operations in October 2010, we have made more than 450 recommendations. Table I (see page 70) summarizes OIG's outstanding unimplemented recommendations. Table II (see page 71) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Table III (see page 86) lists OIG's closed, unimplemented recommendations. Summaries for all reports are available on OIG's website or through the links provided in the accompanying tables. OIG also publishes a Compendium of Open Recommendations on its website.

Table I⁴
Summary of OIG Outstanding Unimplemented Recommendations

Fiscal Year	Number of Unimplemented Recommendations	Total Number of Reports with Unimplemented Recommendations	Dollar Value of Aggregate Potential Cost Savings
2013	3 open recommendations 1 closed, rejected recommendation	2	\$–
2014	2 open recommendations 8 closed, rejected recommendations	7	\$5,015,505 ⁵
2015	2 open recommendations 1 closed, rejected recommendation	3	\$–
2016	6 open recommendations 14 closed, rejected recommendations	12 ⁶	\$–
2017	4 open recommendations 2 closed, rejected recommendations	5 ⁷	\$–
2018	4 open recommendations 5 closed, rejected recommendations	7	\$–
2019	35 open recommendations 4 closed, rejected recommendations	14	\$–
TOTAL	56 open recommendations 35 closed, rejected recommendations	50	\$5,015,505

⁴ This figure summarizes OIG’s outstanding unimplemented recommendations, comprised of open recommendations and closed, rejected recommendations, which were closed in light of the Agency’s permanent rejection or failure to follow through on corrective action.

⁵ This potential cost savings is associated with a closed, rejected recommendation.

⁶ Recommendations from AUD-2016-007 are repeated in AUD-2016-006 and AUD-2016-005. Each repeated recommendation is only counted once; the reports are counted separately.

⁷ As with 2016, certain audit recommendations appear in two reports (AUD-2017-010 and AUD-2017-011). Recommendations are counted only once; reports are counted separately.

Table II
Summary of OIG Open Recommendations

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Conservatorship: Delegated Responsibilities			
Development of Common Securitization Platform	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	Reducing Risk and Preventing Fraud in the New Securitization Infrastructure (EVL-2013-010, August 22, 2013)
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	Reducing Risk and Preventing Fraud in the New Securitization Infrastructure (EVL-2013-010, August 22, 2013)
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	Reducing Risk and Preventing Fraud in the New Securitization Infrastructure (EVL-2013-010, August 22, 2013)
Conflicts of Interest	FHFA should direct FHFA employees to monitor the review and resolution of Senior Executive Officer disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.	Improved oversight	Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)
Supervision			
Examiner Capacity	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises (EVL-2014-002, December 19, 2013)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises (EVL-2014-002, December 19, 2013)
	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.	Improved supervision	FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle (AUD-2017-010, September 27, 2017)
	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.	Improved supervision	FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); and 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 (AUD-2016-006, September 30, 2016)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<p>Accreditation of Examiners</p>	<p>FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of Government-Sponsored Enterprise examinations.</p>	<p>Improved quality</p>	<p>OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program (COM-2015-001, July 29, 2015), and FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners (COM-2018-006, September 6, 2018)</p>
<p>Risk Assessments for Supervisory Planning</p>	<p>FHFA should reinforce, through training and supervision of DER personnel, the requirements established by FHFA, and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ul style="list-style-type: none"> a. Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011) b. Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010) 	<p>Improved supervision</p>	<p>FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle (AUD-2017-010, September 27, 2017); and FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle (AUD-2017-011, September 27, 2017)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Supervision Framework	FHFA should reassess the supervision framework for CSS and update that framework as appropriate to meet FHFA’s supervisory responsibility for this affiliated entity now that it is issuing a single mortgage-backed security for both Enterprises.	Improved supervision	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 (AUD-2019-012, September 17, 2019)
Communication of Deficiencies to Enterprise Boards	FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.)	Improved supervision	FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate (EVL-2016-005, March 31, 2016), and Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors (COM-2018-005, September 5, 2018)
Assessing Remediation of Deficiencies	FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].	Improved remediation of deficiencies	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 (AUD-2018-008, March 28, 2018)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Use of Fraud Risk Reporting	Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommend that FHFA re-evaluate the fraud information it requires from the Enterprises, and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises.	Improved supervision	FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility (EVL-2018-004, September 24, 2018)
Examination Guidance	FHFA should establish and implement timelines and processes to ensure timely updates and revisions to DER’s examination manual. FHFA should establish and communicate clear expectations for use of revised and new examination modules by DER examiners.	Improved supervision Improved supervision	Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance (EVL-2019-003, September 10, 2019) Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance (EVL-2019-003, September 10, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<p>Effective Cybersecurity Controls Examinations</p>	<p>FHFA should require examiners to document their assessment of the design of the Federal Home Loan Banks' vulnerability scans and penetration tests as part of their assessment of the operational effectiveness of such controls.</p>	<p>Improved examinations</p>	<p>FHFA Should Improve its Examinations of the Effectiveness of the Federal Home Loan Banks' Cyber Risk Management Programs by Including an Assessment of the Design of Critical Internal Controls (AUD-2016-001, February 29, 2016), and Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks (COM-2019-004, May 7, 2019)</p>
<p>Quality Control Reviews</p>	<p>FHFA's Office of Minority and Women Inclusion should ensure that quality control reviews are performed before issuing diversity and inclusion examination findings to a regulated entity, as required by Supervision Directive 2017-01.</p>	<p>Improved quality</p>	<p>Compliance Review of FHFA's Office of Minority and Women Inclusion (COM-2019-005, June 24, 2019)</p>
	<p>FHFA should revise the DBR's quality control procedures to specifically require that all examination workpapers supporting examination findings, conclusions, and ratings directly prepared by the examiner-in-charge be reviewed by an individual who did not participate in the examination.</p>	<p>Improved accuracy</p>	<p>FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank (AUD-2019-008, July 10, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should take action to either determine whether the unsupported conclusion in 2016 ROE for the FHLBank in question [redacted] is accurate or inform the board of the FHLBank not to rely on the unsupported conclusion.	Improved accuracy	FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank (AUD-2019-008, July 10, 2019)
	FHFA should evaluate the results of quality control reviews conducted by DER and DBR to identify and address gaps and weaknesses involving MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.	Improved quality	FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies (EVL-2016-004, March 29, 2016), and Compliance Review of FHFA's Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention (COM-2019-007, September 9, 2019)

Counterparties

Compliance with Advisory Bulletins	In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise's] risk management of nonbank seller/ servicers meets FHFA's supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].	Improved risk management	FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers (EVL-2017-002, December 21, 2016)
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Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Information Technology			
Information Technology Risk Examinations	FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.	Improved risk management	FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework (EVL-2016-003, March 28, 2016)
	FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST framework in a manner that achieves consistency with other federal financial regulators.	Improved risk management	FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework (EVL-2016-003, March 28, 2016)
Privacy Information and Data Protection	The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.	Improved protection of privacy information	Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program (AUD-2017-007, August 30, 2017)
	FHFA should develop a schedule and/or rotation plan to assess privacy controls as required by FHFA's Privacy Continuous Monitoring Strategy.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
	FHFA should develop and implement a process to formally test privacy controls documented within the FHFA's Program Plan for Privacy Controls on at least an annual basis in accordance with the schedule and/or rotation to be developed as part of FHFA's Privacy Continuous Monitoring Strategy.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should develop and implement a process to identify and review metrics to measure the effectiveness of privacy activities and compliance with privacy requirements as specified by the Office of Management and Budget.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019) ⁸
	FHFA should determine privacy controls that are information system-specific, and/or hybrid controls.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
	FHFA should document privacy controls within each system's system security plan or system-specific privacy plan, clearly identifying whether controls are program level, common, information system-specific, or hybrid.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
FHFA Information Technology Security	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018 (AUD-2019-001, October 24, 2018)

⁸ In *Audit of the Federal Housing Finance Agency's 2019 Privacy Program*, four additional recommendations were made which, due to Agency corrective action, were closed during this reporting period. Those recommendations were that FHFA should:

- (1) develop and implement a process to ensure that FHFA's Privacy Program Plan, and privacy-related policies and procedures are reviewed and kept up-to-date at least on a biennial basis in accordance with NIST SP 800-53, Revision 4. The review and updates should be recorded, such as in a version history for each document;
- (2) review and update the Merit Central/Job Performance Plan privacy impact assessment to ensure it accurately describes all PII collected by the system;
- (3) implement a process to ensure all of the agency's privacy impact assessments are consistently updated and reviewed to include all types of PII a system collects, in accordance with FHFA Privacy Threshold Analysis and Privacy Impact Assessment Guide; and
- (4) ensure all personnel whose responsibilities include access to PII complete annual privacy role-based training, whether via the planned web based application or by other means.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018 (AUD-2019-001, October 24, 2018)
	FHFA should ensure planned systems replacements meet NIST Special Publication 800-52 Revision 1 requirements for encryption.	Improved information security	External Penetration Test of FHFA's Network and Systems During 2018 (AUD-2019-003, February 11, 2019)
	FHFA should perform tests periodically, and take action as appropriate, to ensure non-FHFA-issued devices cannot connect to the FHFA internal network through [redacted] or similar wireless networks made available to employees for their personal devices.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
	FHFA should ensure that outdated [redacted] and [redacted] protocols in FHFA's systems are disabled or upgraded in a timely manner in accordance with NIST directives.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
	FHFA should restrict user access to [redacted] in accordance with the least privilege principle.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
	FHFA should emphasize through training and enforcement employees' responsibilities to secure sensitive information. FHFA should consider including information in training about the means, such as [redacted], malicious insiders may use to obtain access to sensitive information.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
	FHFA should implement controls to prevent users from running unapproved [redacted] on FHFA's systems.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should change default administrative passwords for all existing [redacted], and implement a control to ensure that default administrative passwords are changed before such devices are deployed and placed in service.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
Cybersecurity Data Collection and Analysis	FHFA should conduct the necessary inquiries and analyses to explain the large disparities in reported cybersecurity events and incidents between the Enterprises, and make use of that information in conjunction with DBR's and DER's respective data collection initiatives.	Improved oversight of information security risks at regulated entities	FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data (EVL-2019-004, September 23, 2019)
	FHFA should evaluate the cybersecurity data it obtains from the regulated entities and revise, as appropriate, the Agency's existing cybersecurity reporting requirements to promote standardization of data, including the use of common definitions.	Improved oversight of information security risks at regulated entities	FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data (EVL-2019-004, September 23, 2019)
Agency Operations			
Oversight of FHFA Workforce Matters	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	Improved opportunities and oversight	Women and Minorities in FHFA's Workforce (EVL-2015-003, January 13, 2015)
	FHFA should develop and implement written procedures for all offboarding activities, to include procedures for the collection and deactivation of access cards for FHFA facilities and the collection and transfer of Enterprise access cards.	Improved opportunities and oversight	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004, March 13, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should ensure that Personal Identity Verification cards are collected, and building access is deactivated, for all separated and departed individuals to whom cards were issued. For unaccounted/lost Personal Identity Verification cards, ensure that building access associated with those cards is promptly deactivated.	Improved opportunities and oversight	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004, March 13, 2019)
	FHFA should implement controls to ensure all departed contractor employees complete applicable offboarding requirements.	Improved opportunities and oversight	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004, March 13, 2019)
	FHFA should reinforce, through training and supervision, that offices with offboarding responsibilities ensure offboarding forms are properly completed.	Improved opportunities and oversight	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004, March 13, 2019)
	FHFA should ensure that offboarding documentation is maintained in accordance with FHFA's retention requirement.	Improved opportunities and oversight	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004, March 13, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.</p>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>
	<p>FHFA should provide training on the operation of its written policy [on the hiring of relatives], with examples, to educate FHFA employees on the limitations on the hiring of relatives.</p>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>
	<p>FHFA should reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.</p>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should require written certifications from hiring officials and human resources officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:</p> <p>a. After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;</p> <p>b. After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.</p>	Prevent the improper hiring of relatives of Agency employees	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>
	FHFA should execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.	Prevent the improper hiring of relatives of Agency employees	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>
	FHFA should determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.	Prevent the improper hiring of relatives of Agency employees	<p>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004, March 26, 2019)</p>
	FHFA should name an Ombudsman, and ensure that the position is continuously filled going forward.	Improved management of a statutory function	<p>FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures (AUD-2019-011, September 16, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should develop written procedures for carrying out the functions of the Office of the Ombudsman, to include procedures for documenting that all incoming complaints and appeals are tracked, considered, and appropriately resolved. In developing these procedures, the guidance published by the Coalition of Federal Ombudsmen should be taken into consideration.</p>	<p>Improved management of a statutory function</p>	<p>FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures (AUD-2019-011, September 16, 2019)</p>
<p>Management of Agency Resources</p>	<p>Should FHFA identify, through these newly implemented controls, any individuals who improperly used transit subsidies to which they were not entitled, FHFA should determine whether to recover the amounts (taking cost/benefit into consideration).</p>	<p>Improved management of resources</p>	<p>FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs (AUD-2018-013, September 25, 2018)</p>

Table III
Summary of Closed, Unimplemented Recommendations

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Property Inspection Quality Controls	FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	Improved quality	FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections (AUD-2014-012, March 25, 2014)
Improperly Reimbursed Property Inspection Claims	FHFA should direct Fannie Mae to obtain a refund from servicers for improperly reimbursed property inspection claims, resulting in estimated funds put to better use of \$5,015,505.	Improved accuracy	FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005, January 15, 2014)
Seller/Servicer Resolution of Aged Repurchase Demands	FHFA should promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit.	Improved oversight	FHFA Oversight of Enterprise Handling of Aged Repurchase Demands (AUD-2014-009, February 12, 2014)
Oversight of Enterprise Implementation of Representation and Warranty Framework	FHFA should perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency's objectives.	Improved framework management	FHFA's Representation and Warranty Framework (AUD-2014-016, September 17, 2014)
Seller/Servicer Compliance with Guidance	FHFA should direct Fannie Mae and Freddie Mac to assess the cost/benefit of a risk-based approach to requiring their sellers and servicers to provide independent, third-party attestation reports on compliance with Enterprise origination and servicing guidance.	Improved compliance	FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018, September 26, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Collection of Funds from Servicers	FHFA should publish Fannie Mae’s reduction targets and overpayment findings.	Improved transparency	Evaluation of Fannie Mae’s Servicer Reimbursement Operations for Delinquency Expenses (EVL-2013-012, September 18, 2013)
Examination Recordkeeping Practices	DER should adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between the two Core Teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.	Improved efficiency	Evaluation of the Division of Enterprise Regulation’s 2013 Examination Records: Successes and Opportunities (EVL-2015-001, October 6, 2014)
Oversight of Enterprise Executive Compensation	FHFA should develop a strategy to enhance the Executive Compensation Branch’s capacity to review the reasonableness and justification of the Enterprises’ annual proposals to compensate their executives based on Corporate Scorecard performance. To this end, FHFA should ensure that: the Enterprises submit proposals containing information sufficient to facilitate a comprehensive review by the Executive Compensation Branch; the Executive Compensation Branch tests and verifies the information in the Enterprises’ proposals, perhaps on a randomized basis; and the Executive Compensation Branch follows up with the Enterprises to resolve any proposals that do not appear to be reasonable and justified.	Improved oversight	Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should develop a policy under which it is required to notify OIG within 10 days of its decision not to fully implement, substantially alter, or abandon a corrective action that served as the basis for OIG’s decision to close a recommendation.</p>	<p>Improved oversight</p>	<p>Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)</p>
	<p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae’s continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the CEO and President positions, with annual compensation capped at \$600,000 since 2015.</p>	<p>Improved governance</p>	<p>FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-001, March 26, 2019)</p>
	<p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac’s continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the CEO responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA’s representation that Candidate A will leave Freddie Mac if he is not selected for the CEO position.</p>	<p>Improved governance</p>	<p>FHFA’s Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-002, March 26, 2019)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Oversight of Servicing Alignment Initiative	FHFA’s Division of Housing Mission and Goals Deputy Director should establish an ongoing process to evaluate servicers’ Servicing Alignment Initiative compliance and the effectiveness of the Enterprises’ remediation efforts.	Improved servicing compliance and minimized losses	FHFA’s Oversight of the Servicing Alignment Initiative (EVL-2014-003, February 12, 2014)
	FHFA’s Division of Housing Mission and Goals Deputy Director should direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals’ assessment.	Improved servicing compliance and minimized losses	FHFA’s Oversight of the Servicing Alignment Initiative (EVL-2014-003, February 12, 2014)
	FHFA’s Division of Housing Mission and Goals Deputy Director should regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers’ actual versus expected performance.	Improved servicing compliance and minimized losses	FHFA’s Oversight of the Servicing Alignment Initiative (EVL-2014-003, February 12, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Targeted Examinations Completed	FHFA should revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance. ⁹	Improved supervision	FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016); 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 (AUD-2016-005, September 30, 2016)

⁹ While FHFA disagreed with this recommendation at the time our reports were issued, we found during this semiannual period that FHFA took actions that addressed the intent of the recommendation by revising its guidance, preparing complete documentation of supervisory activities, maintaining the documentation in its official system of records, and training DER examiners. (See 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* (AUD-2019-012, September 17, 2019) and OIG, *FHFA’s Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue* (AUD-2019-013, September 17, 2019)). Accordingly, we plan to remove the recommendation from this table in future semiannual reports to Congress.

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<p>Oversight of Enterprise Remediation of Deficiencies</p>	<p>FHFA should review FHFA’s existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and other federal financial regulators including, but not limited to, content of an MRA; standards for proposed remediation plans; approval authority for proposed remediation plans; real-time assessments at regular intervals of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; final assessment of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; and required documentation for examiner oversight of MRA remediation.</p>	<p>Improved remediation of deficiencies</p>	<p>FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies (EVL-2016-004, March 29, 2016)</p>
	<p>Based on the results of the review in recommendation 1, FHFA should assess whether any of the existing requirements, guidance, and processes adopted by FHFA should be enhanced, and make such enhancements.</p>	<p>Improved remediation of deficiencies</p>	<p>FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies (EVL-2016-004, March 29, 2016)</p>
<p>Communication of Deficiencies to Enterprise Boards</p>	<p>FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each plan submitted by Enterprise management to remediate an MRA with associated timetables and the response by DER.</p>	<p>Improved Board oversight</p>	<p>FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate (EVL-2016-005, March 31, 2016)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct DER to develop detailed guidance and promulgate that guidance to each Enterprise’s board of directors that explains:</p> <ul style="list-style-type: none"> • The purpose for DER’s annual presentation to each Enterprise board of directors on the ROE results, conclusions, and supervisory concerns and the opportunity for directors to ask questions and discuss ROE examination conclusions and supervisory concerns at that presentation; and • The requirement that each Enterprise board of directors submit a written response to the annual ROE to DER and the expected level of detail regarding ongoing and contemplated remediation in that written response. 	Improved Board oversight	<p>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 (EVL-2016-009, July 14, 2016)</p>
	<p>FHFA should direct the Enterprises’ boards to amend their charters to require review by each director of each annual ROE and review and approval of the written response to DER in response to each annual ROE.</p>	Improved Board oversight	<p>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 (EVL-2016-009, July 14, 2016)</p>
<p>Assessing Remediation of Deficiencies</p>	<p>FHFA should ensure that the underlying remediation documents, including the Procedures Document, are readily available by direct link or other means, through DER’s MRA tracking system(s).</p>	Improved remediation of deficiencies	<p>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 (EVL-2016-007, July 14, 2016)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	FHFA should require DER to track interim milestones and to independently assess and document the timeliness and adequacy of Enterprise remediation of MRAs on a regular basis.	Improved remediation of deficiencies	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 (EVL-2016-007, July 14, 2016)
	FHFA should require the Enterprises to provide, in their remediation plans, the target date in which their internal audit departments expect to validate management’s remediation of MRAs, and require examiners to enter that date into a dedicated field in the MRA tracking system.	Improved remediation of deficiencies	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 (EVL-2016-007, July 14, 2016)
	FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.	Improved remediation of deficiencies	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 (EVL-2018-002, March 28, 2018)
	FHFA should direct that examiners can use Internal Audit work to assess the adequacy of MRA remediation only if FHFA has concluded that the Internal Audit function is effective overall.	Improved remediation of deficiencies	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 (EVL-2018-002, March 28, 2018)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Identification of Deficiencies and Their Root Causes	FHFA should direct DER to revise its guidance to require ROEs to focus the boards' attention of the most critical and time-sensitive supervisory concerns through (1) the prioritization of examination findings and conclusions and (2) identification of deficiencies and MRAs in the ROE and discussion of their root causes.	Improved Board oversight	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 (EVL-2016-008, July 14, 2016)
Oversight of Fannie Mae Headquarters Consolidation and Relocation	FHFA should ensure that it has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the build-out plans and associated budget(s), as Fannie Mae continues to revise and refine them.	Improved oversight	Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project (COM-2016-004, June 16, 2016)
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to Division of Conservatorship for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	Improved oversight	Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project (COM-2016-004, June 16, 2016)
Oversight of Fannie Mae Northern Virginia Consolidation and Relocation	To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties.	Reduced waste	Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce (OIG-2018-004, September 6, 2018)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<p>To reduce the waste from Option C, FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.</p>	<p>Reduced waste</p>	<p>Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce (OIG-2018-004, September 6, 2018)</p>
<p>Conflicts of Interest</p>	<p>Take appropriate action to address conflicts of interest issue involving an entity within FHFA's oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>	<p>Improved oversight</p>	<p>Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise (OIG-2017-004, March 23, 2017)</p>
	<p>Take appropriate action to address conflicts of interest issue involving an entity within FHFA's oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>	<p>Improved oversight</p>	<p>Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise (OIG-2017-004, March 23, 2017)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Management of Agency Resources	FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.	Improved compliance	Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements (AUD-2018-011, September 6, 2018)
Privacy Information and Data Protection	FHFA should determine the feasibility for automatically disabling inactive application accounts Correspondence Tracking System and Merit Central/ Job Performance Plan at a frequency that fits the business needs and update applicable system policies and procedures, as necessary.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
	FHFA should implement a control at the application layer to ensure inactive application accounts for Correspondence Tracking System and Merit Central/ Job Performance Plan are disabled in accordance with the determined system frequency. If the application does not accommodate automatic disabling of inactive accounts, then consider implementing manual compensating controls (i.e., manually reviewing and disabling dormant accounts) to help mitigate the risk.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)

Appendix C: OI Publicly Reportable Investigative Outcomes Involving Condo Conversion and Builder Bailout Schemes

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure, causing the lenders to suffer large losses. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Guilty Plea in Condominium Conversion/Builder Bailout Scheme, Illinois			
Defendant	Role	Most Recent Action	Date
Lily Harutunian	Title Company Owner	Pled guilty to bank fraud.	September 12, 2019

45-Month Prison Sentence in Scheme Involving False Representation About Buyers' Income, Illinois			
Defendant	Role	Most Recent Action	Date
Steven Bartlett	Business Owner	Sentenced to 45 months in prison, 3 years of supervised release, and ordered to pay \$1,890,748 in restitution, joint and several.	June 28, 2019

Sentencing in \$21 Million Builder Bailout Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
Ali Khatib	Participant	Sentenced to 27 months in prison, 3 years of supervised release, and ordered to pay \$10,042,638 in restitution.	June 24, 2019

Appendix D: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Sentencing of Loan Officer and Associate in Loan Origination Fraud Scheme, Mississippi			
Defendant	Role	Most Recent Action	Date
Max Miller	Loan Officer	Sentenced to 18 months in prison, 2 years of supervised release, and ordered to pay \$374,261 in restitution, joint and several.	September 13, 2019
James Nichols	Associate	Sentenced to time served, 5 years of supervised release, and ordered to pay \$374,261 in restitution, joint and several.	September 13, 2019

Guilty Pleas of Loan Processor and Business Owner in Loan Origination Fraud Scheme, Illinois			
Defendant	Role	Most Recent Action	Date
Irma Holloway	Business Owner	Pled guilty to bank fraud.	September 10, 2019
Amber Cook	Loan Processor	Pled guilty to bank fraud.	May 9, 2019

Sentencing of Co-Owner of Real Estate Brokerage Company, California

Defendant	Role	Most Recent Action	Date
Lucy Garcia	Co-Owner of Real Estate Brokerage Company	Sentenced to 9 months in prison, 2 years of supervised release with 12 months home detention, and ordered to pay \$2,591,000 in restitution, joint and several.	August 8, 2019

Guilty Plea and Sentencing of Mortgage Loan Originator, Washington

Defendant	Role	Most Recent Action	Date
Jeffrey Behrman	Mortgage Loan Originator	Pled guilty to attempted forgery and sentenced to 364 days in prison.	June 26, 2019

Indictment of Loan Officer in Origination Fraud Scheme, Missouri

Defendant	Role	Most Recent Action	Date
Michael Huber	Loan Officer	Charged by indictment with false statements to HUD.	June 6, 2019

Defendant Sentenced in Two Criminal Cases for Appraisal Fraud Scheme, Ohio

Defendant	Role	Most Recent Action	Date
Cynthia Faulkner	Business Owner	Sentenced in one criminal action to 21 months in prison, 3 years of supervised release, and ordered to pay \$359,866 in restitution.	May 8, 2019
		Sentenced in a second criminal action to 21 months in prison and 1 year of supervised release. Sentences are concurrent.	May 8, 2019

Appendix E: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Real Estate Professionals Indicted in Multimillion-Dollar Short Sale Fraud Scheme, New York			
Defendant	Role	Most Recent Action	Date
Iskyo Aronov	Business Owner	Charged by indictment with conspiracy to commit wire fraud and bank fraud, and wire fraud.	September 6, 2019
Michael Konstantinovskiy	Real Estate Broker	Charged by indictment with conspiracy to commit wire fraud and bank fraud, and wire fraud.	September 6, 2019
Tomer Dafna	Business Owner	Charged by indictment with conspiracy to commit wire fraud and bank fraud, and wire fraud.	September 6, 2019
Avraham Tarshish	Business Owner	Charged by indictment with conspiracy to commit wire fraud and bank fraud, and wire fraud.	September 6, 2019
Michael Herskowitz	Attorney	Charged by indictment with conspiracy to commit wire fraud and bank fraud, and wire fraud.	September 6, 2019

Licensed Real Estate Agent Pled Guilty in Short Sale Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Brannon Rue	Licensed Real Estate Agent	Pled guilty to false statements to a federally-insured financial institution.	August 26, 2019

Three Defendants Plead Guilty in Mortgage and Short Sale Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Jyoteshna Karan	Participant	Pled guilty to conspiracy to commit mail fraud and bank fraud.	July 29, 2019
Praveen Singh	Participant	Pled guilty to conspiracy to commit mail fraud and bank fraud.	July 29, 2019
Nani Isaac	Participant	Pled guilty to making false statements.	July 26, 2019

Two Real Estate Brokers Plead Guilty in Short Sale Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Steve Kang	Real Estate Broker/Agent	Charged by information and pled guilty to bank fraud and wire fraud.	May 30, 2019
Young Jin Son	Real Estate Broker/Agent	Charged by information and pled guilty to bank fraud and wire fraud.	May 30, 2019

Real Estate Agent/Investor Charged in Short Sale Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Anthony Garvin	Real Estate Agent/Investor	Charged by superseding indictment with conspiracy to commit bank fraud and bank fraud.	June 28, 2019

Appendix F: OI Publicly Reportable Investigative Outcomes Involving Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant upfront fees or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Trial Conviction and Sentencing in Scheme Targeting Homeowners Facing Foreclosure, Kansas			
Defendant	Role	Most Recent Action	Date
Sarah Cordry	Participant	Convicted at trial on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	September 30, 2019
Tyler Korn	Participant	Sentenced to 51 months in prison, 3 years of supervised release, and ordered to pay \$1,313,508 in restitution, joint and several.	April 2, 2019

Restitution Ordered in Nationwide Loan Modification Scheme, California			
Defendant	Role	Most Recent Action	Date
Rosa Barraza	Participant	Ordered to pay \$1,000,439 in restitution.	September 12, 2019

Attorney Pleads Guilty in Foreclosure- Rescue and Loan Modification Scheme, Texas			
Defendant	Role	Most Recent Action	Date
Gagandeep Seth	Attorney	Charged by information and pled guilty to making a false report to HUD.	August 14, 2019

Sentencing in \$20 Million Mortgage Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Jason Hong	Participant	Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$7,883,601 in restitution, joint and several.	April 1, 2019

Appendix G: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes

The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Subjects Charged in Two Courts for Roles in a Deed Fraud Scheme, Nevada			
Defendant	Role	Most Recent Action	Date
Ernest Aldridge	Participant	Charged by state criminal complaint with forgery: false entry in public record, forgery of conveyances, attempt to obtain money, property or rent by false pretenses, and uttering a forged instrument.	July 29, 2019
Clarence Willis	Participant	Charged by state criminal complaint with forgery: false entry in public record, forgery of conveyances, attempt to obtain money, property or rent by false pretenses, and uttering a forged instrument.	July 29, 2019
Ernest Aldridge	Participant	Charged by indictment with theft in the amount of \$3,500 or more, burglary, and multiple transactions involving fraud or deceit.	May 16, 2019
Clarence Willis	Participant	Charged by indictment with theft in the amount of \$3,500 or more, burglary, and multiple transactions involving fraud or deceit.	May 16, 2019

Couple Pleads Guilty to Long-Running Real Estate Fraud Scheme, Minnesota

Defendant	Role	Most Recent Action	Date
Jeffrey Detloff	Owner	Pled guilty to conspiracy to commit mail and wire fraud affecting a financial institution.	July 25, 2019
Lori Detloff	Accountant	Pled guilty to aiding and abetting.	July 25, 2019
Detloff Marketing & Asset Management	Business	Pled guilty to conspiracy to commit mail and wire fraud affecting a financial institution.	July 25, 2019

Real Estate Investor Receives 5 Life Sentences and Participant Sentenced in REO Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Mary Revoller-Chavez	Participant	Pled guilty to organized scheme to defraud, criminal use of personal identification, and money laundering and sentenced to 5 years of probation and ordered to pay \$164,774 in restitution, joint and several.	June 4, 2019
Robert Tribble	Real Estate Investor	Sentenced to 5 life sentences and ordered to pay \$130,174 in restitution.	April 24, 2019

Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Fraud Scheme Operator Sentenced to 20 Years in Federal Prison and Co-Conspirators Plead Guilty for Conning Elderly Victims Out of Their Homes and Money, California			
Defendant	Role	Most Recent Action	Date
Michael Henschel	Participant	Sentenced to 240 months in prison and 3 years of supervised release.	September 30, 2019
Eugene Fulmer	Participant	Pled guilty to mail fraud and bankruptcy fraud.	May 13, 2019
Camerino Islas	Participant	Pled guilty to conspiracy to commit mail fraud and bankruptcy fraud.	May 6, 2019
Claudia Islas	Participant	Pled guilty to conspiracy to commit mail fraud and bankruptcy fraud.	April 29, 2019
Juan Velasquez	Participant	Pled guilty to conspiracy to commit mail fraud and bankruptcy fraud.	April 29, 2019

Guilty Plea of Paralegal in Foreclosure-Bankruptcy Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Eric Liebman	Paralegal	Pled guilty to conspiracy.	September 24, 2019

Business Owner Indicted in Alleged Mortgage Fraud Scheme, Wisconsin

Defendant	Role	Most Recent Action	Date
Aston Wood	Business Owner	Charged by indictment with wire fraud, mail fraud, bankruptcy fraud, and criminal contempt of court.	September 19, 2019

Three Charged in Foreclosure-Bankruptcy Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Audrey Gan	Participant	Charged by indictment with conspiracy, prohibited act by a foreclosure consultant, elder abuse, grand theft, filing a false document, pattern of white collar crime, and excessive taking.	September 6, 2019
Robert Sedlar	Participant	Charged by indictment with conspiracy, prohibited act by a foreclosure consultant, elder abuse, grand theft, filing a false document, pattern of white collar crime, and excessive taking.	September 6, 2019
Steven Rogers	Participant	Charged by indictment with conspiracy, prohibited act by a foreclosure consultant, elder abuse, grand theft, filing a false document, pattern of white collar crime, and excessive taking.	September 6, 2019

Three Sentenced in \$2 Million Mortgage Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Jemal Lilly	Participant	Sentenced to 3 years and 8 months in prison and ordered to pay \$411,185 in restitution.	September 4, 2019
Mark Bellinger	Participant	Sentenced to 8 years in prison and ordered to pay \$198,059 in restitution.	July 29, 2019
Andrew Valles	Participant	Sentenced to 13 years in prison and ordered to pay \$2,342,957 in restitution.	May 15, 2019

Sentencings and Indictments in Bankruptcy Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Michaelangelo Hijada	Licensed Real Estate Broker	Sentenced to 3 years of probation and ordered to pay \$122,648 in restitution.	August 12, 2019
Milton Sicard	Real Estate Sales Associate	Sentenced to 3 years of probation and ordered to pay \$56,977 in restitution, of which \$2,000 is joint and several.	August 12, 2019
Tanya Firmani	Participant	Charged by indictment with conspiracy to commit bankruptcy fraud.	July 31, 2019
Hedley John	Participant	Charged by indictment with conspiracy to commit bankruptcy fraud.	July 31, 2019

One Sentenced After Guilty Plea and One Indicted in Equity Skimming Through Foreclosure Delay Scheme, California

Defendant	Role	Most Recent Action	Date
Yvonne Martinez	Participant	Pled guilty to filing a false document and sentenced to 48 months of probation.	July 24, 2019
James Rojas	Participant	Charged by state complaint with filing a false document, grand theft, elder abuse, and foreclosure fraud.	June 11, 2019

Charges Filed on Squatter in Lien Fraud Investigation, Washington

Defendant	Role	Most Recent Action	Date
Douglas Wrenn	Squatter	Charged by information with mortgage fraud, theft, and residential burglary.	July 9, 2019

Former Mortgage Broker Charged with Deed Fraud Scheme, Texas

Defendant	Role	Most Recent Action	Date
Arlando Jacobs	Participant	Ordered to pay \$7,693,646 in restitution.	July 1, 2019
Clarence Roland, III	Former Mortgage Broker	Charged by superseding indictment with conspiracy to commit bank and wire fraud, wire fraud, and money laundering.	April 2, 2019

Trial Conviction in Bankruptcy Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Christopher Coburn	Business Owner	Found guilty at trial on charges of bankruptcy fraud and falsification of records in a bankruptcy proceeding.	June 26, 2019

Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Superseding Indictment Filed in Multimillion-Dollar Mortgage Fraud Scheme, New York			
Defendant	Role	Most Recent Action	Date
Robert Morgan	Chief Executive Officer	Charged by superseding indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, bank fraud, and money laundering conspiracy.	May 21, 2019
Frank Giacobbe	Business Owner	Charged by superseding indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, bank fraud, and money laundering conspiracy.	May 21, 2019
Todd Morgan	Project Manager	Charged by superseding indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, bank fraud, and money laundering conspiracy.	May 21, 2019
Michael Tremiti	Director of Finance	Charged by superseding indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, bank fraud, and money laundering conspiracy.	May 21, 2019
Scott Cresswell	Chief Operating Officer	Charged by information and pled guilty to conspiracy to commit wire fraud.	May 13, 2019

Appendix J: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Sentencing of Former Relationship Manager and Doctor and Guilty Plea of Business Owner in Bank Fraud Scheme, Delaware			
Defendant	Role	Most Recent Action	Date
Tae Kim	Relationship Manager (Loan Officer)	Sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$2,459,150 in restitution.	September 30, 2019
Zahid Aslam	Doctor	Sentenced to 30 months in prison and 3 years of supervised release.	May 31, 2019
Mehul Khatiwala	Business Owner	Pled guilty to conspiracy to commit bank fraud and bank fraud.	April 25, 2019

Subjects Charged in Identity Theft and Bank Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Torre Worthy	Participant	Charged by superseding indictment with conspiracy to commit bank fraud and aggravated identity theft.	September 9, 2019
Tana Gyenis	Participant	Charged by indictment with conspiracy to commit bank fraud and aggravated identity theft.	July 11, 2019

Father and Son Sentenced along with Co-Conspirator in Scheme to Defraud FHLBank Affordable Housing Program, South Carolina

Defendant	Role	Most Recent Action	Date
John Bagwell, Jr.	General Contractor	Sentenced to 5 years of probation and ordered to pay \$23,681 in restitution.	September 6, 2019
Tommy Quick	Non-Profit Executive Director	Sentenced to 6 months in prison, 6 months home confinement, 3 years of supervised release, and ordered to pay \$211,237 in restitution, joint and several.	August 27, 2019
Isaac Quick	Non-Profit Program Manager	Sentenced to 24 months of probation and ordered to pay \$211,237 in restitution, joint and several.	August 27, 2019

Former Bank Executive Found Guilty at Trial in \$15 Million Construction Loan Fraud Scheme, Kansas

Defendant	Role	Most Recent Action	Date
Troy Gregory	Bank Executive and Loan Officer	Found guilty at trial on charges of bank fraud and false statements.	August 19, 2019

Federal Home Loan Bank Execs Plead Guilty, Two Pleas Occurring Mid-Trial, Texas

Defendant	Role	Most Recent Action	Date
Nancy Parker	Former FHLB – Dallas Chief Information Officer	Pled guilty to conspiracy to make false statements to a Federal Home Loan Bank.	July 23, 2019
Terrence Smith	Former FHLB – Dallas CEO & President	Pled guilty to conspiracy to make false statements to a Federal Home Loan Bank.	July 19, 2019
Michael Sims	Former FHLB – Dallas Chief Financial Officer	Pled guilty to misprision of a felony.	June 27, 2019

Businessman Sentenced in Bank Fraud Scheme Involving Failed Sonoma Valley Bank, California

Defendant	Role	Most Recent Action	Date
James House	Businessman	Sentenced to 3 years of supervised release and ordered to pay \$19,196,000 in restitution, joint and several.	July 17, 2019

Four Charged in HELOC Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Yorce Yotagri	Participant	Charged by indictment with conspiracy to commit bank fraud.	June 10, 2019
Joseph Gonzalez	Participant	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	June 10, 2019
Jose Piedrahita	Participant	Charged by indictment with conspiracy to commit bank fraud.	June 10, 2019
Jorge Flores	Participant	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	June 10, 2019

Guilty Pleas in \$364 Million Ponzi Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Jay Ledford	Certified Public Accountant/Participant	Pled guilty to conspiracy to commit wire fraud, aggravated identity theft, and a money-laundering transaction in excess of \$10,000.	June 6, 2019
Kevin Merrill	Participant	Pled guilty to conspiracy and wire fraud.	May 16, 2019
Cameron Jezierski	Participant	Pled guilty to conspiracy to commit wire fraud.	April 2, 2019

Indictment of Couple in Multimillion-Dollar Check Kiting Scheme, Kansas

Defendant	Role	Most Recent Action	Date
Tyler Gillum	Participant	Charged by indictment with bank fraud and false statements.	May 29, 2019
Camden Gillum	Participant	Charged by indictment with bank fraud and false statements.	May 29, 2019

Ex-Mirae Bank Executive Sentenced to 70 Months in Prison for Loan Fraud, California

Defendant	Role	Most Recent Action	Date
Ataollah Aminpour	Former Chief Marketing Officer	Sentenced to 70 months in prison, 5 years of supervised release, and ordered to pay \$7,519,084 in restitution.	May 20, 2019

Appendix K: Glossary and Acronyms

Glossary of Terms

Bankruptcy: A legal procedure for resolving debt problems of individuals and businesses; specifically, a case filed under one of the chapters of Title 11 of the U.S. Code.

Conservatorship: A legal procedure for the management of financial institutions for an interim period during which the institution’s conservator assumes responsibility for operating the institution and conserving its assets. Under the Housing and Economic Recovery Act of 2008, the Enterprises were placed into conservatorships overseen by FHFA. As conservator, FHFA has undertaken to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. FHFA also has assumed the powers of the boards of directors, officers, and shareholders; however, the day-to-day operational decision-making of each company is delegated by FHFA to the Enterprises’ existing management.

Default: Occurs when a mortgagor misses one or more payments.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010: Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end “too big to fail,” to protect the American taxpayer by ending bailouts, and to protect consumers from abusive financial services practices.

Fannie Mae: A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Fannie Mae supplies funds to lenders so they may make loans to home buyers.

Federal Home Loan Banks: The FHLBanks are 11 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or “advances”) to their member banks but do not lend directly to individual borrowers.

Fiscal Year 2019: OIG’s FY 2019 covers October 1, 2018, through September 30, 2019.

Foreclosure: A legal process used by a lender to obtain possession of a mortgaged property in order to repay part or all of the debt.

Freddie Mac: A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

Government-Sponsored Enterprises: Business organizations chartered and sponsored by the federal government. The GSEs regulated by FHFA also are referred to as regulated entities.

Guarantee: A pledge to investors that the guarantor will bear the default risk on a pool of loans or other collateral.

Housing and Economic Recovery Act of 2008: Legislation that established FHFA and OIG. HERA also expanded Treasury’s authority to provide financial support to the regulated entities and enhanced FHFA’s authority to act as conservator or receiver.

Inspector General Act of 1978: Legislation that authorized establishment of offices of inspectors general, “independent and objective units” within federal agencies, that: (1) conduct and supervise audits and investigations relating to the programs and operations of their agencies; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of agency programs and to prevent and detect fraud, waste, or abuse in such programs and operations; and (3) provide a means for keeping the head of the agency and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

Inspector General Reform Act of 2008: Legislation that amended the Inspector General Act to enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

Internal Control: A process effected by an entity’s oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) operations—effectiveness and efficiency of operations; (2) reporting—reliability of reporting for internal and external use; and (3) compliance—compliance with applicable laws and regulations. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of resources.

Mortgage-Backed Securities: Debt securities that represent interests in the cash flows—anticipated principal and interest payments—from pools of mortgage loans, most commonly on residential property.

Real Estate Owned: Foreclosed homes owned by government agencies or financial institutions, such as the Enterprises or real estate investors. REO homes represent collateral seized to satisfy unpaid mortgage loans. The investor or its representative must then sell the property on its own.

Securitization: A process whereby a financial institution assembles pools of income-producing assets (such as loans) and then sells securities representing an interest in the assets' cash flows to investors.

Senior Preferred Stock Purchase Agreements: Entered into at the time the conservatorships were created, the PSPAs authorize the Enterprises to request and obtain funds from Treasury, among other matters. Under the PSPAs, the Enterprises agreed to consult with Treasury concerning a variety of significant business activities, capital stock issuance, dividend payments, ending the conservatorships, transferring assets, and awarding executive compensation.

Servicers: Intermediaries between mortgage borrowers and owners of the loans, such as the Enterprises or mortgage-backed securities investors. Servicers collect the borrowers' mortgage payments, remit them to the owners of the loans, maintain appropriate records, and address delinquencies or defaults on behalf of the owners of the loans. For their services, they typically receive a percentage of the unpaid principal balance of the mortgage loans they service. The recent financial crisis put more emphasis on servicers' handling of defaults, modifications, short sales, and foreclosures, in addition to their more traditional duty of collecting and distributing monthly mortgage payments.

Short Sale: The sale of a mortgaged property for less than what is owed on the mortgage.

Straw Buyer: A person whose credit profile is used to serve as a cover in a loan transaction. Straw buyers are chosen for their ability to qualify for a mortgage loan, causing loans that would ordinarily be declined to be approved. Straw buyers are often paid a fee for their involvement in purchasing a property and usually do not intend to own or occupy the property.

Underwater: Term used to describe situations in which the homeowner's equity is below zero (i.e., the home is worth less than the balance of the loan[s] it secures).

Underwriting: The process of analyzing a loan application to determine the amount of risk involved in making the loan. It includes a review of the potential borrower's credit worthiness and an assessment of the property value.

Upfront Fees: One-time payments made by lenders when a loan is acquired by an Enterprise. Fannie Mae refers to upfront fees as "loan level pricing adjustments" and Freddie Mac refers to them as "delivery fees."

Acronyms and Abbreviations

Agency	Federal Housing Finance Agency
AML	Anti-Money Laundering
BSA	Bank Secrecy Act
Blue Book	Quality Standards for Inspection and Evaluation
CECL	Current Expected Credit Loss
CEO	Chief Executive Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DOJ	Department of Justice
Enterprises	Fannie Mae and Freddie Mac
FASB	Financial Accounting Standards Board
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Modernization Act of 2014
FSOC	Financial Stability Oversight Council
FY 2019	Fiscal Year 2019
GAO	Government Accountability Office
GSE	Government-Sponsored Enterprise
HERA	Housing and Economic Recovery Act of 2008

HUD-OIG	Department of Housing and Urban Development Office of Inspector General
IG	Inspector General
IRS-CI	Internal Revenue Service-Criminal Investigation
MRA	Matter Requiring Attention
NIST	National Institute of Standards and Technology
OA	Office of Audits
OCom	Office of Compliance and Special Projects
OE	Office of Evaluations
OI	Office of Investigations
OIG	Federal Housing Finance Agency Office of Inspector General
ORA	Office of Risk Analysis
PII	Personally Identifiable Information
PSPA	Senior Preferred Stock Purchase Agreement
REO	Real Estate Owned
ROE	Report of Examination
SA	Special Agent
SGE	Senior Government Employee
TCRs	Tips, Complaints, or Referrals
Treasury	U.S. Department of the Treasury



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Federal Housing Finance Agency
Office of Inspector General
400 Seventh Street, SW
Washington, DC 20219
Main (202) 730-0880
Hotline (800) 793-7724
www.fhfaog.gov