



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2017, through March 31, 2018



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL



## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2017, through March 31, 2018

# Table of Contents

<b>Our Vision</b> . . . . .	<b>1</b>
<b>Our Mission</b> . . . . .	<b>1</b>
<b>Core Values</b> . . . . .	<b>2</b>
<b>Snapshot of OIG Accomplishments</b> . . . . .	<b>3</b>
<b>A Message from the Inspector General</b> . . . . .	<b>4</b>
<b>Executive Summary</b> . . . . .	<b>6</b>
Overview . . . . .	6
This Report . . . . .	7
<b>OIG’s Oversight</b> . . . . .	<b>8</b>
OIG’s Risk-Based Oversight Strategy . . . . .	8
OIG Impact Through Risk Analyses, Compliance Reviews, and Special Projects . . . . .	10
Office of Risk Analysis . . . . .	10
Office of Compliance and Special Projects . . . . .	12
<b>OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period</b> . . . . .	<b>14</b>
Office of Audits . . . . .	14
Office of Evaluations . . . . .	14
Office of Compliance and Special Projects . . . . .	14
Oversight Activities This Period by Risk Area . . . . .	14
Conservatorship Operations . . . . .	15
Delegated Matter: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Corporate Governance Issues by FHFA. . . . .	15
Delegated Matter: FHFA’s Oversight of the Enterprises’ Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV . . . . .	16
Delegated Matter: FHFA’s Review Process for Transfer of Enterprise Mortgage Servicing Rights . . . . .	18
Delegated Matter: Update on FHFA’s Oversight of the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances . . . . .	19
Supervision of the Regulated Entities . . . . .	20
Supervision of the Enterprises: FHFA Examiners’ Use of the Enterprises’ Internal Audit Work When Assessing Remediation of Matters Requiring Attention . . . . .	20
Information Technology Security . . . . .	22

FHFA’s Oversight of the Enterprises’ Closure of Cybersecurity-Related Matters Requiring Attention . . . . .	22
Statutory Audits: FHFA’s and OIG’s Information Security Programs. . . . .	23
Counterparties and Third Parties . . . . .	23
FHFA Completed Planned Procedures for Representation and Warranty Framework Targeted Examinations at the Enterprises, but Did Not Sufficiently Document Changes to Planned Testing and Examination Work . . . . .	23
FHFA Should Address the Potential Disparity Between the Statutory Requirement for Fraud Reporting and its Implementing Regulation and Advisory Bulletin . . . . .	25
Reports and Recommendations. . . . .	26
<b>Oversight Through OIG’s Investigations . . . . .</b>	<b>28</b>
Investigations: Civil Cases . . . . .	30
Investigations: Criminal Cases . . . . .	32
Condo Conversion and Builder Bailout Schemes . . . . .	32
Loan Origination Schemes. . . . .	34
Loan Modification and Property Disposition Schemes . . . . .	36
Short Sale Schemes . . . . .	37
Adverse Possession and Distressed Property Schemes . . . . .	38
Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions . . . . .	39
Outreach . . . . .	44
Investigations: Administrative Actions. . . . .	44
Suspended Counterparty Referrals . . . . .	44
<b>OIG’s Regulatory Activities and Outreach . . . . .</b>	<b>46</b>
Regulatory Activities . . . . .	46
Public and Private Partnerships, Outreach, and Communications . . . . .	46
Congress . . . . .	46
Hotline . . . . .	46
Close Coordination with Other Oversight Organizations . . . . .	46
Private-Public Partnerships . . . . .	47
<b>Appendix A: Information Required by the Inspector General Act . . . . .</b>	<b>48</b>
Reports Identifying Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management Issued During the Semiannual Period . . . . .	51
Audit and Evaluation Reports with No Management Decision . . . . .	51

No Agency Response Within 60 Days . . . . .	51
Significant Revised Management Decisions . . . . .	51
Significant Management Decisions with Which the Inspector General Disagrees. . . . .	51
Federal Financial Management Improvement Act of 1996 . . . . .	51
Peer Reviews . . . . .	52
Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation. . . . .	52
Audits or Evaluations That Were Closed and Not Disclosed . . . . .	53
Interference with Independence . . . . .	53
<b>Appendix B: OIG Recommendations . . . . .</b>	<b>54</b>
<b>Appendix C: OI Publicly Reportable Investigative Outcomes Involving Condo Conversion and Builder Bailout Schemes . . . . .</b>	<b>95</b>
<b>Appendix D: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes . . . . .</b>	<b>98</b>
<b>Appendix E: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes . . . . .</b>	<b>100</b>
<b>Appendix F: OI Publicly Reportable Investigative Outcomes Involving Loan Modification and Property Disposition Schemes . . . . .</b>	<b>101</b>
<b>Appendix G: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes . . . . .</b>	<b>103</b>
<b>Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession and Distressed Property Schemes . . . . .</b>	<b>104</b>
<b>Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes . . . . .</b>	<b>107</b>
<b>Appendix J: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions . . . . .</b>	<b>108</b>
<b>Appendix K: Glossary and Acronyms. . . . .</b>	<b>112</b>
Glossary of Terms . . . . .	112
Acronyms and Abbreviations. . . . .	115
<b>Appendix L: Endnotes . . . . .</b>	<b>117</b>



## 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, stakeholders, 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 by visiting [OIG's website](#) or calling (800) 793-7724.

# Snapshot of OIG Accomplishments

## Semiannual Reporting Period

**October 1, 2017–March 31, 2018**

Reports Issued	17
Includes audits, evaluations, compliance reviews, a special project, and white papers	
Recommendations	15
Investigative Activities:	
Indictments / Charges	47
Arrests	39
Convictions / Pleas	48
Sentencings	36
Suspension / Debarment Referrals to Other Agencies	47
Suspended Counterparty Referrals to FHFA	27
Investigative Monetary Results:	
Criminal Restitution	\$14,096,593
Criminal Fines / Special Assessments / Forfeitures	\$17,128,337
Civil Settlements	\$2,002,000,000
Investigations Total Monetary Results*	\$2,033,224,930

\*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 activities of the Federal Housing Finance Agency Office of Inspector General, which covers the period from October 1, 2017, to March 31, 2018.

We seek to be a catalyst for effective management, accountability, and positive change in FHFA by promoting the economy, efficiency, and effectiveness of FHFA programs and operations. We also seek to be a voice for, and protect the interests of, those who have funded Treasury’s investment in the Enterprises—the American taxpayers. Through robust oversight efforts, we protect FHFA, the Enterprises in its conservatorship, and the entities it supervises against fraud, waste, and abuse.

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, diminished capital buffer, conservatorship status, and uncertain future, the Enterprises have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 60%. As of year-end 2017, the Enterprises collectively reported approximately \$5.4 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 year-end 2017, the FHLBanks collectively reported roughly \$1.1 trillion in assets. 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. Making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

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 facing FHFA, the Enterprises in its conservatorship, and the entities it regulates. These challenges are discussed in OIG, [Strategic Plan, Fiscal Years 2018-2022](#); and OIG, [Fiscal Year 2018 Management and Performance Challenges](#) (October 15, 2017). We have established a rigorous process to develop oversight projects based on risk. Consistent with our Core Values, once we begin an oversight project, 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, relevant, and timely.

During this semiannual period, we published 17 reports, including audits, evaluations, compliance reviews, a special project report, and white papers, which are available on the



Laura S. Wertheimer  
Inspector General of the  
Federal Housing Finance Agency

[OIG 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 17 reports illustrate the broad scope of our oversight responsibilities and results.

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 programs and operations. For this semiannual period, we issued 15 recommendations. Appendix B of this report summarizes all of the recommendations made by OIG during this period, recommendations made in prior periods that remain open (and unimplemented), and all closed, unimplemented recommendations. During each reporting period, we update information in Appendix B as new recommendations are issued or are closed, and we publish the updated information periodically in a [Compendium of Open Recommendations](#) on our website.

During this reporting period, we conducted a number of investigations involving civil and criminal fraud, which resulted in significant criminal prosecutions and civil fraud enforcement, including:

- 47 indictments/charges;
- 48 convictions/pleas;
- 36 sentencings;
- More than \$31 million in criminal restitutions, fines, special assessments, and forfeitures; and
- More than \$2 billion in civil settlements.

In many of these investigations, we worked collaboratively with our law enforcement colleagues in other agencies. A recent example was the joint investigation with the U.S. Department of Justice into allegations that Barclays Capital, Inc. and several of its affiliates (Barclays) misled investors about the quality of mortgage-backed securities in the years leading to the financial crisis. Barclays agreed to pay a civil money penalty of \$2 billion in settlement.

Through our written reports and our law enforcement efforts, both civilly and criminally, 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 oversight conducted by this Office.

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

Laura S. Wertheimer  
Inspector General  
April 30, 2018

# 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 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 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.<sup>1</sup>

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 tenth 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 regulator of the Enterprises and regulator 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 regulator of the Enterprises and the FHLBanks and as conservator of the Enterprises since September 2008, OIG's responsibilities are correspondingly broader than those of an Office of Inspector General for other prudential federal financial regulators because they include oversight of FHFA's actions as conservator.

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) 2018**, OIG's operating budget is \$49.9 million.

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.

## This Report

This Semiannual Report (SAR) to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of October 1, 2017, to March 31, 2018. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 17 audits, evaluations, compliance reviews, special report, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 47 indictments/charges, 48 convictions/pleas, and 36 sentencings of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; more than \$31 million in criminal restitutions, fines, special assessments, and forfeitures; and more than \$2 billion in civil settlements;
- Summarizes OIG's outreach during the reporting period; and
- Reviews the status of OIG's audit, evaluation, and compliance recommendations.

# OIG's Oversight

## OIG's Risk-Based Oversight Strategy

Currently, FHFA serves as supervisor of the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their tenth year, are of unprecedented scope, scale, and complexity. FHFA serves in a unique role: it is both conservator and supervisor of the Enterprises and supervisor of the FHLBanks, and these dual roles 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 risk-based Audit and Evaluation Plan in February 2015, which has been updated annually.

Our current [Audit, Evaluation, and Compliance Plan](#), adopted in March 2018, 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 during the 2018 calendar year. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

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. In October 2017, we updated our assessment of FHFA's major management and performance challenges. We noted that these challenges all carried over from prior years and, if not addressed, could adversely affect FHFA's accomplishment of its mission. (See OIG, [Fiscal Year 2018 Management and Performance Challenges](#) (October 15, 2017)). During this reporting period, OIG continued 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. These challenges include:

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

Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undetermined duration. When then-Secretary of the Treasury Henry Paulson announced the conservatorships in September 2008, he explained that they were meant to be a “time out” during which the Enterprises would be stabilized, enabling the “new Congress and the next Administration [to] decide what role government in general, and these entities in particular, should play in the housing market.” The current FHFA Director has echoed that view, recognizing that conservatorship “cannot [and] should not be a permanent state” for the Enterprises. However, putting the Enterprises into conservatorships

has proven to be far easier than taking them out, and the “time out” period for the conservatorships is now in its tenth year.

While in conservatorship, the Enterprises have required almost \$191.5 billion in financial investment from the Treasury to avert their insolvency and, through March 2018, the Enterprises have paid to the Treasury more than \$278.7 billion in dividends on its investment. Despite their high leverage, diminished capital, conservatorship status, and uncertain future, the Enterprises have grown in size since being placed into conservatorship in 2008 and, according to FHFA, their combined market share of newly issued **mortgage-backed securities** is more than 60%. As of year-end 2017, the Enterprises collectively reported approximately \$5.4 trillion in assets and more than \$5.3 trillion in debt.

Although market conditions have improved and the Enterprises have paid dividends on Treasury’s investments, the Enterprises’ future profitability cannot be assured for these reasons: the wind down of their retained investment portfolios and reduction in net interest income; reduction in the value of the Enterprises’ deferred tax assets due to recent federal corporate tax reform (considered by FHFA to be a short-term consequence); the level of guarantee fees they will be able to charge and keep; the future performance of their business segments; and the significant uncertainties involving key market drivers, such as mortgage rates, homes prices, and credit standards.

Under HERA, FHFA’s actions as conservator are not subject to judicial review or intervention, nor are they subject to procedural safeguards that are ordinarily applicable to regulatory activities such as rulemaking. 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.

- ***Supervision of the Regulated Entities – Upgrade Supervision of the Enterprises and Continue Robust Supervision of the FHLBanks.***

As discussed earlier, FHFA plays a unique role as both conservator and supervisor for the Enterprises and as supervisor for the FHLBank System. FHFA has repeatedly stated that effective supervision of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness.

Within FHFA, the Division of Federal Home Loan Bank Regulation is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act requires each FHLBank to be examined at least annually. FHFA’s Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. Section 1317 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, requires FHFA to conduct annual on site examinations of each Enterprise (codified at 12 U.S.C. § 4517). FHFA’s annual examination program assesses the financial safety and soundness and overall risk management practices of each Enterprise through ongoing monitoring, targeted examinations, and risk assessments.

- ***Information Technology Security – Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA.***

Security of information technology (IT) and IT systems continues to be a preeminent issue for businesses and individuals alike. The regulated entities, like most modern institutions, rely on numerous, complex IT systems to conduct almost every aspect of their work. These IT systems manage processes to guarantee and purchase loans, supporting more than \$5 trillion in Fannie Mae and Freddie Mac mortgage assets, and

store, process, and transmit financial data and personally identifiable information (PII). Both Enterprises and the FHLBanks have been the subject of cyberattacks, though none caused significant harm. All entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their IT systems might be vulnerable, and penetration of those systems poses a material risk to their business operations. Further, the Enterprises are increasingly relying on third-party service providers, which requires the sharing of sensitive information between Enterprise and third-party systems.

- ***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. That reliance exposes the Enterprises to counterparty risk—the risk that the counterparty will not meet its contractual obligations. FHFA has delegated to the Enterprises the management of their relationships with counterparties, and FHFA reviews that management largely through its supervisory activities. As participants in the mortgage market change, counterparties can affect the risks to be managed by Fannie Mae and Freddie Mac. In recent years, the Enterprises’ businesses have changed dramatically in terms of the types of institutions originating and selling mortgages to them and servicing mortgages on their behalf.

## **OIG Impact Through Risk Analyses, Compliance Reviews, and Special Projects**

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, we created, in 2015, the Office of Risk Analysis (ORA) to enhance 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 three white papers discussing emerging and ongoing risks.

### **White Paper: Increasing Enterprise Purchases of Adjustable-Rate Mortgages and Changes to Sellers’ Guides Creates an Emerging Risk**

Adjustable-rate mortgages (ARMs) entered the single-family mortgage market nationwide in the early 1980s. The critical feature of every ARM is an interest rate that changes periodically, at intervals set by the ARM, over the lifetime of the loan. During 1999, the Enterprises purchased ARMs with a principal unpaid balance of approximately \$19.6 billion, roughly 3.6% of their total single-family mortgage purchases that year. By 2005, the

share peaked at nearly 20% of the more than \$900 billion in overall Enterprise single-family purchases that year. After 2006, as the mortgage market first softened and then deteriorated, ARMs declined in borrower popularity. That decline was driven by a number of factors, including loss of the interest rate advantage, reduction in housing prices, and tightening of credit standards.

In 2007, the ARM share of all single-family mortgages purchased by the Enterprises declined to about 13% and reached a low of 2.3% (\$27 billion) of their purchases of single-family mortgages in 2009. During these two years, the Enterprises adopted restrictions on purchases of ARMs but did not eliminate purchases of ARMs. According to the Enterprises, ARMs have a higher inherent credit risk than traditional single-family fixed-rate mortgages, and ARMs with nontraditional features (such as payment only of interest with no principal and/or monthly payment choices that do not cover the full amount of the monthly principal and interest owed) and/or layers of additional risk (such as reduced loan documentation and low-down payments) present greater credit risks.

We assessed whether the volume and percentage of Enterprise purchases of ARMs during the period January 2014 through April 2017 increased, whether these ARMs contain nontraditional features and/or layers of risk, and whether the increasing volume of Enterprise ARM purchases creates an emerging risk. Our analysis found that a modest increase in ARM purchases, combined with revisions to the sellers' guides to permit some risk layering, creates an emerging risk that merits ongoing monitoring. (See OIG, [Fannie Mae and Freddie Mac Purchases of Adjustable-Rate Mortgages](#) (WPR-2018-001, January 4, 2018)).

### **White Paper: Private Mortgage Insurers, Which FHFA Has Reported as the Largest Counterparty Exposure for the Enterprises, Are an Ongoing Risk**

Pursuant to their congressional charters, the Enterprises may purchase single-family residential mortgages with loan-to-value (LTV) ratios above 80%, provided that these mortgages are supported by an enumerated credit enhancement, one of which is mortgage insurance. Since 1957, private mortgage insurers have assumed an ever-increasing role in providing credit enhancements and they now insure the vast majority of loans over 80% LTV purchased by the Enterprises. FHFA has reported that mortgage insurers are the largest counterparty risk for the Enterprises.

During the financial crisis, some mortgage insurers faced severe financial difficulties due to the precipitous drop in housing prices and increased **defaults** that required the insurers to pay more claims. Currently, the mortgage insurance industry consists of six private mortgage insurers.

Our review looked at the ongoing risks associated with private mortgage insurers that insure loan payments on single-family mortgages with LTVs greater than 80% purchased by the Enterprises. We observed that stronger mortgage insurer capital, compliance with private mortgage insurer eligibility requirements (PMIERS), the ongoing effort to consider whether PMIERS should be updated, and the strength of the housing market were positive emerging trends. We reported the Enterprises' recognition that, notwithstanding the improvement in the financial condition of mortgage insurer counterparties approved to write mortgage insurance, some of these insurers may fail to fully meet their obligations. We noted that some of the features of the industry, including the monoline business requirement and the cyclic housing market,

and emerging trends, including increasing volume, high concentrations, an inability by the Enterprises to manage concentration risk, mortgage insurers with credit ratings below the Enterprises' historic requirements and investment grade, and remaining unpaid mortgage insurer deferred obligations, are factors that could act to increase the ongoing risks. (See OIG, [Enterprise Counterparties: Mortgage Insurers](#) (WPR-2018-002, February 16, 2018)).

### **White Paper: Custodial Depository Institutions Are an Ongoing Risk**

Each Enterprise uses custodial depository institutions (CDIs) to receive and hold billions of dollars in mortgage payments that borrowers make on mortgages that the Enterprises own or **guarantee**. Some of those funds are earmarked to pay investors who have purchased Fannie Mae or Freddie Mac mortgage-backed securities, and some are earmarked for payment to the Enterprises for mortgages they own or to pay their guarantee fees. Because CDIs hold billions of dollars on behalf of the Enterprises, the Enterprises recognize that they may be exposed to counterparty risk should one or more CDIs fail to meet their obligations.

Our review of this ongoing risk recognized that the risk was mitigated by deposit insurance up to \$250,000 per borrower, **servicer** responsibilities, and Enterprise eligibility requirements for CDIs. We noted that each Enterprise reports that it regularly monitors the risks from CDIs, takes action, as warranted, and continues to consider additional **internal controls** and best practices for management and oversight of custodial accounts. (See OIG, [Enterprise Counterparties: Custodial Depository Institutions](#) (WPR-2018-003, March 27, 2018)).

### **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. Created in December 2014, the 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. We review 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 consults with each OIG division prior to the closure of a recommendation to facilitate application of 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. To date, we have issued 10 compliance reviews reporting on the validation testing of 12 closed recommendations. Our validation testing found that FHFA had fully implemented six of those 12 recommendations and had not fully implemented the remaining six.

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

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. During this reporting period, OCom issued a special report assessing FHFA's oversight of the Enterprises' fraud reporting, also 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 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 the Office of Compliance and Special Projects. During this reporting period, OIG published 14 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges that we identified to FHFA.

## 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.

## 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 by Risk Area

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the four risk-based areas on which it intends to focus its 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 it has identified to FHFA. We now discuss our oversight activities during the reporting period, executed by OA, OE, and OCom, by each risk area.

## Conservatorship Operations

### Delegated Matter: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Corporate Governance Issues by FHFA

FHFA, as conservator, has delegated to each Enterprise responsibility 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. In an administrative investigation during the last reporting period, we reviewed the policies, procedures, and codes that make up Fannie Mae’s process for conflicts of interest involving senior executive officers (SEOs). In this evaluation, we sought to assess FHFA’s oversight of this conflicts process.

We first sought to understand whether Fannie Mae’s governance documents reserved to either the Board of Directors (Board) or the Nominating and Corporate Governance Committee (NGC) the authority to resolve conflicts of interest issues involving SEOs. The NGC Charter charges the NGC with reviewing activities of Designated Executive Officers—also called SEOs—that “may result in a potential or actual conflict of interest” under the Conflict of Interest Policy (COI Policy) or Conflict of Interest Procedure (COI Procedure). The Charter also states that the NGC is responsible for interpreting the COI Policy and COI Procedure where the interpretation relates to the Fannie Mae Chief Executive Officer (CEO), who is also an SEO.

Fannie Mae’s COI Policy and COI Procedure—drafted and revised by the office responsible for assisting the NGC in fulfilling its duties, Fannie Mae’s Office of Compliance

and Ethics (FM Ethics)—state that the NGC is responsible for “approving” conflict of interest requests from SEOs. Section 10.2.7 of the COI Procedure sets forth a clear, unambiguous procedure that must be used by FM Ethics to escalate all conflicts requests involving SEOs to the NGC for resolution by the NGC.

According to FHFA, Fannie Mae’s governance documents are internally inconsistent with respect to responsibility for resolution of conflicts of interest involving SEOs. The Agency pointed to the Executive Officer Delegations of Authority (EDoA)—a management-created document not approved by the Board through which the CEO delegates to subordinates the authority granted to him by the Board—and Annex A to the EDoA, approved by the Board, which lists matters requiring Board, a committee, or FHFA approval and does not identify SEO conflicts of interest.

To understand the practice followed by the NGC to resolve SEO potential conflicts of interest, we interviewed the NGC Chair (an NGC member since December 2008 and chair since October 2015) and he provided two conflicting explanations of the NGC’s practice. We sought to determine what practice, if any, had been consistently followed by the NGC over a five-year period between January 2012 and December 2016 with respect to SEOs. We identified 57 potential conflicts involving SEOs, which were documented in the company’s Case Management System (CMS), NGC meeting materials, and/or minutes. Using minutes of NGC meetings related to these matters and CMS entries, we mapped how each potential conflict was ultimately resolved. Of these 57 potential conflicts involving SEOs, we found:

- For 24 of the 57 potential conflicts (42%), FM Ethics presented the potential conflict

and its recommended determination to the NGC for its determination.

- For 16 of the 57 (28%), FM Ethics determined on its own whether a conflict involving an SEO existed and, where it found a conflict, took steps to address it and subsequently notified the NGC of its determination. We found no evidence that any NGC member: asked FM Ethics to explain why it presented some SEO potential conflicts to the NGC for its resolution, but retained and resolved other potential SEO conflicts and subsequently notified the NGC of its determination; pressed FM Ethics to explain the basis of its authority to resolve conflicts determinations for SEOs; provided direction to FM Ethics about its role in resolving SEO conflicts; or raised the potential inconsistencies between its duties under the Charter and its duties under the COI Procedure with the Board and asked the Board to clarify its responsibilities.
- For 17 of the 57 (30%), FM Ethics determined on its own whether a potential conflict of interest involving an SEO existed and took steps to resolve any conflict that it identified. We found no evidence that FM Ethics ever notified the NGC of any of these 17 conflicts disclosures or determinations, which deprived the NGC of its ability to satisfy its duties under its Charter.

We also looked at FHFA’s oversight of the NGC’s review of conflicts of interest involving SEOs. While we found that FHFA employees attended NGC meetings at which FM Ethics presented conflicts questions involving SEOs to the NGC for its determinations and notified the NGC of its decisions regarding SEO conflicts requests, we found no evidence that FHFA employees identified the lack

of consistent approach and process in the resolution of these conflicts or escalated those issues to senior FHFA management. We also found no evidence that FHFA’s senior management was aware of these issues until we brought them to FHFA’s attention.

Based on our review, we found failures, both by Fannie Mae’s NGC and by FHFA, which created a weakness in Fannie Mae’s risk management structure. Without enhancements to the NGC’s oversight, there is a significant risk that the NGC will continue to fall short in exercising its governance responsibilities. We made eight recommendations to FHFA to address these shortcomings and the Agency agreed with those recommendations. (See [OIG, \*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)).

### **Delegated Matter: FHFA’s Oversight of the Enterprises’ Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV**

For more than 20 years, successive administrations agreed that a barrier to homeownership for low- and moderate-income people was a significant down payment, and they promoted solutions to reduce that barrier to increase accessibility to homeownership. Numerous studies have found that saving enough cash for a down payment and other up-front closing costs is the greatest barrier that low-income and minority families face when considering homeownership.

As conservator, FHFA issued an expectation to the Enterprises in May 2014 to “Work

to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk-management practices.” Later that year, in October 2014, the FHFA Director announced that FHFA was working with the Enterprises to develop sensible and responsible guidelines for mortgages with loan-to-value (LTV) ratios between 95% and 97% (high LTV mortgages) to increase access for creditworthy but lower-wealth borrowers.

After reviewing proposals received from Fannie Mae and Freddie Mac, FHFA staff prepared a memorandum in early December 2014 (Staff Memorandum) recommending that the FHFA Director approve the high LTV mortgage programs proposed by the Enterprises. The Staff Memorandum acknowledged that “historical performance demonstrates that higher LTV loans can have higher risks than lower LTV loans and can have higher loss severities,” but asserted that these higher risks can be safely offset by thoughtful compensating factors and risk mitigants, including automated **underwriting**, private mortgage insurance, and pre-purchase homeownership education. The Staff Memorandum identified an additional control: FHFA’s ongoing oversight of Enterprise purchases of high LTV mortgages. The FHFA Director accepted the staff recommendation and approved the programs on December 3, 2014.

During this semiannual reporting period, we completed two audits, one of Fannie Mae and one of Freddie Mac, to assess FHFA’s oversight of each Enterprise’s implementation of their 97% LTV mortgage program. As part of assessing FHFA’s oversight, we obtained (through FHFA) and analyzed each Enterprise’s data on 97% LTV mortgages purchased by the Enterprise and whether those mortgages conformed to three FHFA-required credit terms: (1) automated

underwriting, (2) mortgage insurance, and (3) homeownership education. Our analysis of data provided by the Enterprises, through FHFA, found a high rate of compliance for the mortgages purchased by the Enterprises under their 97% LTV mortgage programs.

Based on our inquiries to FHFA and Fannie Mae, and our analysis of the data provided by the Enterprise, we found that Fannie Mae purchased 74,700 mortgages from December 3, 2014, to December 31, 2016, under the 97% LTV mortgage program approved in the Staff Memorandum. Of those mortgages purchased, all were underwritten using an automated underwriting system and all but two loans utilized mortgage insurance or another credit enhancement. Regarding homeownership education, which was required for only about a fourth of the 97% LTV mortgage purchases, we found that Fannie Mae relied on the lenders’ representations and warranties to determine whether this requirement was met. Fannie Mae quality control reviews of purchased loans found 20 exceptions with homeownership education, representing 3% of loans sampled where homeownership education was a requirement. During our audit, Fannie Mae advised us that in March 2017, it implemented a “fatal” rule in its Loan Delivery system, requiring lenders to confirm that pre-purchase homeownership education has been completed, when required, or the mortgage will be rejected.

Based on our inquiries to FHFA and Freddie Mac, and our analysis of the data provided by the Enterprise, we found that Freddie Mac purchased 19,628 mortgages from December 3, 2014, to December 31, 2016, under the 97% LTV mortgage program. Of those mortgages purchased, all were underwritten using an approved method of underwriting and contained information from the lender about required mortgage insurance

or another credit enhancement. Regarding homeownership education, which was required for 16,074 of the 97% LTV mortgage purchases, we found that 15,730 mortgages met the credit term, which represents a compliance rate of 98%. For the remaining 344 mortgages, Freddie Mac reported that the lenders could not provide evidence that the homeownership education requirement was met for 13 mortgages and was unable to confirm whether the remaining 331 mortgages met the homeownership education requirement because of the number of lenders involved. Freddie Mac advised us that, as a result of our inquiries, the Enterprise is developing and implementing additional business rules to: (1) improve the accuracy of lenders' recording of homeownership education information in its Selling System and (2) enforce the homeownership education requirement.

Our audits also reviewed FHFA's ongoing oversight of the Enterprises' purchases of high LTV mortgages. We found that FHFA's oversight and supervision of the Enterprises' 97% LTV mortgage programs, which focused on the Enterprises' credit risk management, did not directly address compliance with the three risk mitigants that were the scope of our audits.

While we made no recommendations in our audit reports, we advised FHFA that in view of the increasing volume of 97% LTV mortgages purchased by the Enterprises, it would be prudent for FHFA to conduct supervisory activities over their 97% LTV mortgage programs, consistent with the recognition in the Staff Memorandum that such activities are "an important oversight control." (See OIG, [Audit of FHFA's Oversight of Fannie Mae's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV](#) (AUD-2018-

003, March 8, 2018) and [Audit of FHFA's Oversight of Freddie Mac's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV](#) (AUD-2018-004, March 8, 2018)).

### **Delegated Matter: FHFA's Review Process for Transfer of Enterprise Mortgage Servicing Rights**

Fannie Mae and Freddie Mac contract with banks, nonbanks, and other financial institutions (servicers) to service the mortgages they own or guarantee. Each servicer owns the mortgage servicing rights (MSR) for the mortgages that it services. One servicer may transfer MSR to another, provided that the Enterprise that owns or guarantees the underlying mortgages reviews the proposed transaction and verifies that the acquiring servicer has the capacity to service the loans and to manage the associated risks. FHFA has largely delegated to the Enterprises responsibility for reviewing and approving MSR transfers. In 2012 and 2013, we identified weaknesses in the Agency's delegated approach. Accordingly, in 2013 we recommended that FHFA establish a formal review process for significant MSR transfers, and it agreed to do so.

The Agency established a formal review process for reviewing large transfers, or "Significant Transfers," of MSR in an effort to ensure that each Enterprise's Significant Transfer proposals provide assurance that the acquiring servicer has the capacity to service the transferred loans and to manage the associated risks. The process, contained in the Agency's 2014 Guidelines for Reviewing Significant MSR Transfers, sets out nine factors to guide substantive consideration of the proposed transfer and assigned particular responsibilities within the Agency.

We performed a compliance review to determine whether FHFA followed its formal review process from June 2016 through June 2017. We determined that the Agency's documentation showed that it complied with the process and that its reviews were rigorous. (See OIG, [\*Compliance Review of FHFA's Review Process for Transfer of Enterprise Mortgage Servicing Rights\*](#) (COM-2018-001, February 6, 2018)).

### **Delegated Matter: Update on FHFA's Oversight of the Enterprises' Single-Family Mortgage Underwriting Standards and Variances**

In a March 22, 2012, audit report, OIG recommended that FHFA strengthen its credit risk oversight by establishing a formal policy by which to review the Enterprises' single-family mortgage underwriting standards and variances to those standards. The Agency agreed to our recommendation. In 2013, its Office of Housing and Regulatory Policy (OHRP) adopted a formal policy and process that included standards for reviewing the Enterprises' variance and bulk transfer activities, as well as proposed new and revised mortgage selling policies (2013 SF Process).

In a December 2015 compliance review, we found that OHRP did not follow most of the procedures in the 2013 SF Process for its review of variances and bulk transfers. We also found that neither Enterprise submitted proposed new and revised mortgage selling policies to OHRP pursuant to the standard announced in the 2013 SF Process. Instead, each Enterprise relied on its own interpretation of FHFA's 2012 Revised Letters of Instruction (2012 RLOI) to determine which mortgage selling policies to submit to OHRP for review. Their differing interpretations resulted in disparate numbers of mortgage selling policies

submitted to OHRP by the Enterprises. Both Enterprises ignored FHFA's policy; one by submitting everything, and the other by the paucity of its submissions. As we reported, OHRP advised us that the small number of submissions from one Enterprise limited OHRP's visibility into that Enterprise's single-family underwriting standards and risks. Therefore, we reopened the recommendation from our 2012 audit report.

On June 30, 2016, FHFA reported that the 2013 SF Process had been revised with an effective date of June 30, 2016, and would be implemented between July 1, 2016, and December 30, 2016 (2016 SF Process). FHFA subsequently notified us that it developed a revised process in March 2017 (the 2017 SF Process), which, it stated, corrected the oversight deficiencies identified in our 2015 compliance review and 2012 audit. We undertook this compliance review in September 2017 to validate the effectiveness of these remedial actions.

According to the Senior Associate Director (head) of OHRP, she explained the submission standard in the 2016 SF Process to the Enterprises but they persisted in following their prior interpretations of the 2012 RLOI. She reported to us that she made FHFA's Division of Conservatorship (DOC) well aware of the challenges and frustrations caused by one of the Enterprise's continued insistence on submitting mortgage selling policies pursuant to its interpretation of the 2012 RLOI. DOC represented to us in writing that it took no action to secure the Enterprises' adherence to the submission standard in the 2016 SF Process. We found no evidence that either DOC or the Division of Housing Mission and Goals (DHMG) (the division to which OHRP reports) sought to timely resolve the matter by a targeted revision of the 2012 RLOI in 2016 to the FHFA Director. We explained that the problem we identified

in 2015 persists: the mortgage selling policy submissions from one Enterprise have remained too few to provide OHRP with full visibility into that Enterprise’s single-family underwriting standards and risks.

In our view, FHFA’s failure to require the Enterprises to comply with its submission standards from February 2013 until the end of 2017, and its continued lack of full visibility into one Enterprise’s single-family underwriting policies, raise serious questions about the effectiveness of FHFA’s oversight of this area and the significant risks associated with it. We determined that the record provided an insufficient basis on which to close the outstanding recommendation. (See OIG, [\*Update on FHFA’s Implementation of its Revised Procedures for Overseeing the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances\*](#) (COM-2018-003, March 27, 2018)).

## **Supervision of the Regulated Entities**

### **Supervision of the Enterprises: FHFA Examiners’ Use of the Enterprises’ Internal Audit Work When Assessing Remediation of Matters Requiring Attention**

When DER conducts supervisory activities, it may identify significant deficiencies related to risk management, risk exposure, or violations of laws, regulations, or orders affecting the performance or condition of a regulated entity. Among these “adverse examination findings” are matters requiring attention (MRAs), which consist of either “critical supervisory matters (the highest priority), which pose substantial risk to the safety and soundness of the regulated entity” or “deficiencies,” which if not corrected, could “escalate and potentially negatively affect” the regulated entity.

FHFA expects the Enterprises to take corrective action to remediate MRAs, and DER is responsible for monitoring the remediation process. When Enterprise management determines that it has completed remediation of an MRA, FHFA expects the Enterprise’s internal audit (IA) functions to review the corrective action and “validate” that remediation has been fully implemented as intended. The Enterprise then submits a closure package to DER that contains documentation of IA’s validation work. Based on a review of the closure package, and any other follow-up examination work that DER may conduct, DER determines whether the MRA has been satisfactorily addressed and notifies the Enterprise of its determination.

In a 2016 evaluation, we found that some DER examiners appeared to have accepted MRA validation work conducted by the Enterprises’ IA functions without evidence of independent analysis. During this reporting period, we completed two follow-up evaluations. In one report, we reviewed DER’s guidance and standards for reliance on the Enterprises’ IA functions when examiners assess the remediation of MRAs. We compared FHFA guidance (including DER’s guidance and standards) to guidance issued by the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Federal Reserve), and interviewed DER officials and staff. Federal Reserve and OCC guidance direct their respective examiners to periodically assess and conclude on the overall effectiveness or strength of the IA functions at their regulated financial institutions. Federal Reserve guidance permits reliance on IA MRA follow-up only when the Federal Reserve has rated the institution’s IA function as effective overall. We found, however, that FHFA has not concluded on the overall effectiveness of the Enterprises’ IA functions and that DER has no present

plans to do so. As a result, we concluded that DER examiners lack assurance of the overall quality, reliability, competency, and objectivity of the IA function when they use IA validation work.

In addition, we found that FHFA guidance does not address whether, or the circumstances under which, FHFA examiners may rely on, accept, or otherwise use information, analyses, or conclusions provided by an Enterprise's IA function when determining whether an Enterprise has satisfactorily remediated an MRA. Accordingly, DER examiners are given wide discretion to determine whether and to what extent to rely on, accept, or otherwise use IA validation work as a basis to close MRAs. In our view, such discretion to use IA validation work to close MRAs, without a predicate supervisory conclusion on the overall effectiveness of the IA function, creates the risk that DER's assessment of the adequacy of Enterprise remediation will be impaired.

We made three recommendations to FHFA to address these shortcomings. FHFA agreed with one recommendation and disagreed with two. FHFA agreed to issue more detailed examiner guidance regarding the use of IA work in assessment of Enterprise remediation of MRAs by October 31, 2018. FHFA did not agree to conclude periodically on the overall effectiveness of the Enterprises' IA functions and did not agree to direct that examiners can use IA work to assess MRA remediation only if FHFA has concluded that the IA function is effective overall. (See OIG, [\*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)).

In a companion evaluation, we reviewed DER's practices for closing MRAs in order to understand (1) the extent to which examiners accepted, relied on, or otherwise used IA's validation work in their assessment of the adequacy of MRA remediation and (2) whether they conducted independent assessments of the adequacy of the remediation. We reviewed key documentation for a sample of 22 out of 78 MRAs issued to Fannie Mae and Freddie Mac and closed by DER between January 2015 and October 2017. In our interviews of the examination managers and examiners responsible for closing these MRAs, varying explanations were offered for the difference between relying on and leveraging IA's validation work but no clear distinction was provided. No uniform view was expressed whether DER examiners were expected to conduct any testing as part of their assessment of MRA remediation. For the 22 MRAs in our sample, we found that DER examiners generally relied on the validation testing conducted by the Enterprise's IA function when testing of the sufficiency of MRA remediation was conducted.

Because FHFA only issues MRAs for the most significant deficiencies, determinations to close MRAs should be based on the examiners' independent assessments of the Enterprises' remedial actions. Current FHFA guidance directs examiners to independently review and assess the documents in the Enterprise's closure package, including some independent review or assessment of documentation provided by the Enterprise's business unit and/or IA. As FHFA does not identify the steps that examiners should undertake to assess the sufficiency of MRA remediation, we found that examination managers and examiners have broad discretion in determining the scope of their independent assessment of the adequacy of the remedial actions. We determined, from our

review of key examiner workpapers for the 22 MRAs in our sample, that the workpapers reflected some independent assessment of the sufficiency of management’s remediation activities and/or IA’s validation work for nearly all of the 22 MRAs in our sample, although the scope of that assessment varied among examiners.

FHFA agreed with our recommendation to adopt clear guidance that identifies the work steps that should be included in examiners’ independent assessments of IA’s work when assessing the sufficiency of MRA remediation and specifies the conditions under which examiner testing is expected. The Agency represented that it would provide more detailed guidance by October 31, 2018. (See OIG, [FHFA’s Adoption of Clear Guidance on the Review of the Enterprises’ Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners](#) (EVL-2018-003, March 28, 2018)).

## **Information Technology Security**

### **FHFA’s Oversight of the Enterprises’ Closure of Cybersecurity-Related Matters Requiring Attention**

During this reporting period, we completed two audits that built upon our prior audit work regarding DER’s oversight of cybersecurity risks at the Enterprises. In one audit, we sought to determine, for the three MRAs closed in 2016, whether FHFA examiners followed the requirements in place at the time to independently verify Fannie Mae’s implementation of its remedial plans. For all three MRAs, we found that DER independently verified Fannie Mae’s implementation of its remedial plans and met its standard in closing these MRAs. (See OIG, [As Allowed by its Standard, FHFA Closed](#)

[Three Fannie Mae Cybersecurity MRAs after Independently Determining the Enterprise Completed its Planned Remedial Actions](#) (AUD-2018-007, March 28, 2018)).

Our second audit sought to determine, for an MRA issued in 2012, whether FHFA examiners followed the requirements in place at the time in issuing “non-objection” letters to Freddie Mac’s remedial plans and in independently verifying Freddie Mac’s implementation of its remedial plans. We found that, from 2012 to 2014, Freddie Mac submitted three remedial plans to DER to address this MRA. While DER examiners expected to determine whether the proposed remedial plan(s) was “sufficiently detailed and appropriate to resolve the MRAs,” we found that the three remedial plans, together, did not address one of the critical deficiencies giving rise to the MRA.

We sought to determine whether DER followed its guidance in closing this MRA. We found that DER documented its review of evidence submitted by Freddie Mac to demonstrate that the corrective action items and/or milestones in the three remedial plans were met, which met DER’s guidance. Because none of Freddie Mac’s remedial plans addressed one of the critical deficiencies giving rise to the MRA, DER had no evidence that this deficiency was remediated.

We made two recommendations to FHFA to address the shortcomings identified in this audit. FHFA agreed with the recommendations. Its planned corrective actions are responsive to the recommendations. (See OIG, [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)).

## **Statutory Audit: FHFA's and OIG's Information Security Programs**

We completed two audits during the reporting period assessing the existing security programs at FHFA and OIG pursuant to the Federal Information Security Modernization Act of 2014. (See OIG, [\*Performance Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2017\*](#) (AUD-2018-001, October 17, 2017) and [\*Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program, Fiscal Year 2017\*](#) (AUD-2018-002, October 17, 2017)). Both audits were performed by an independent public accounting firm, Kearney & Company, P.C., under contract with OIG. The objectives of these audits were to evaluate the effectiveness of FHFA's and OIG's information security programs and practices and respond to the Department of Homeland Security's FY 2017 Inspector General Federal Information Security Modernization Act of 2014 Reporting Metrics, dated April 17, 2017. Because information in these reports could be used to circumvent FHFA's and OIG's internal controls, the complete text of the reports has not been released publicly.

## **Counterparties and Third Parties**

### **FHFA Completed Planned Procedures for Representation and Warranty Framework Targeted Examinations at the Enterprises, but Did Not Sufficiently Document Changes to Planned Testing and Examination Work**

Fannie Mae and Freddie Mac provide liquidity to the U.S. housing finance system by purchasing residential mortgages from lenders and either holding these mortgages in their portfolios or bundling the purchased

mortgages into securities for which they guarantee principal and interest. In guaranteeing the securities, the Enterprises assume the credit risk from possible default of the underlying mortgages. To mitigate this risk, the Enterprises require lenders from whom they purchase residential mortgages to make contractual representations and warranties wherein the lenders represent that the mortgages meet specific underwriting requirements. Historically, the Enterprises have relied on the lenders' representations and warranties that underwriting requirements were met and conducted limited due diligence at the time the mortgages were purchased. When mortgages defaulted or the borrower missed payments, the Enterprises would then review the loan files for evidence of breach of the representations and warranties and exercise their contractual rights to require lenders to repurchase, or buy back, non-compliant loans. The Enterprises' contractual rights to put back non-compliant loans at any point during the term of the loans enabled the Enterprises to reduce losses caused by underwriting defects.

In September 2012, FHFA announced that the Enterprises would launch a new representation and warranty framework (new framework). The objective of the new framework was to enhance transparency and certainty for lenders by clarifying when a mortgage loan may be subject to repurchase. The new framework, designed by the Enterprises to meet FHFA's stated objective, shifted some risk of non-compliance with representations and warranties from the lenders to the Enterprises (and therefore to taxpayers). The new framework required operational changes at the Enterprises to mitigate the additional risk. FHFA recognized the need to test the adequacy of those operational changes, through its supervisory activities, to ensure that the additional risk had been mitigated.

For the previous semiannual reporting period, we reported that we completed separate audits of DER's supervision over each Enterprise's implementation of the new framework to assess (1) whether DER's planned supervisory activities relating to the Enterprises' implementation of the new framework for the 2015 and 2016 examination cycles could be tracked to its risk assessments and supervisory strategies and (2) whether DER executed these planned supervisory activities during the 2015 and 2016 examination cycles. During this semiannual reporting period, we completed separate audits for Fannie Mae and Freddie Mac to determine whether DER performed its planned procedures and sufficiently supported its conclusions for select new framework-related targeted examinations.

For DER's 2015 Fannie Mae targeted examination entitled Single-Family Loan Quality Center, we found that DER performed its planned procedures and the conclusions presented to Fannie Mae were consistent with those detailed in the workpapers. We also found that the workpapers sufficiently supported DER's conclusions. However, we also found one instance in which DER did not document, in accordance with DER's guidance on sampling practices, the rationale for reduced transaction testing. We did not make a recommendation for this audit because we only found a lapse in examiner adherence to FHFA and DER workpaper directives for a single procedure that did not inhibit a third party's ability to understand the conclusions reached for the targeted examination that was the scope of this audit. However, we counseled that the sufficiency of examination workpapers—to provide a third-party with a clear understanding of the examination work performed, the examination findings, conclusions, and ratings reached, and any implications of the findings, conclusions, and ratings—is a matter

needing continued and continual examiner and management attention. (See OIG, [\*FHFA Completed its Planned Procedures for a 2015 Representation and Warranty Framework Targeted Examination at Fannie Mae, but Did Not Document a Change to Planned Testing\*](#) (AUD-2018-005, March 13, 2018)).

For DER's 2016 Freddie Mac targeted examination entitled Representation and Warranty Framework, we found that DER performed its planned procedures, and prepared the required examination documents. The conclusions DER presented to Freddie Mac were consistent with those detailed in the targeted examination workpapers. However, the examiner did not prepare the examination workpapers for this targeted examination in a manner that provided a third party with a clear understanding of the examination work performed. Specifically, certain examination work that, upon inquiry, was cited by the Examination Manager to support the conclusion reached for this targeted examination was not documented in the workpapers.

To address this weakness, we recommended that FHFA reinforce, in examiner training, the need to prepare workpapers for targeted examinations with sufficient detail and clarity to provide a third party with a clear understanding of the examination work performed; the examination findings, conclusions, and ratings reached; and any implications of the findings, conclusions, and ratings. FHFA agreed with our recommendation to address this shortcoming. (See OIG, [\*FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work\*](#) (AUD-2018-006, March 13, 2018)).

## **FHFA Should Address the Potential Disparity Between the Statutory Requirement for Fraud Reporting and its Implementing Regulation and Advisory Bulletin**

Fannie Mae and Freddie Mac face the risk of fraud from various actors in the mortgage market, including originators, counterparties, and insiders. Fraud may subject the Enterprises to significant financial, operational, legal, or reputational harm. For this reason, the Enterprises are subject to fraud reporting requirements prescribed by statute, regulation, and guidance issued by FHFA.

During this reporting period, we undertook a special project to assess FHFA's oversight of the Enterprises' reporting of actual or potential fraud. We found a potential disparity between the fraud reporting requirement in the statute and that in the Agency's regulation and guidance. By statute, an Enterprise must "timely report" to the Agency each occurrence involving the purchase or sale of a loan or financial instrument when the Enterprise discovers fraud or "suspects a possible fraud." The statute also insulates a regulated entity from all liability in connection with making a "good faith" report. FHFA's implementing regulation defines "possible fraud" to require an Enterprise to conduct and complete an inquiry and develop a "reasonable belief" of its existence. The inquiry built into FHFA's definition of "possible fraud" appears to contemplate a higher reporting threshold than the statutory direction to "timely report" a suspicion of possible fraud.

We are mindful of the deference to be given an agency's construction of a statute that the agency administers where the statute is ambiguous and the agency's position is reasonable. Given that the fraud reporting requirement is contained in a statute intended to restore confidence in the Enterprises and

strengthen regulatory oversight, we questioned whether an interpretation that appears to weaken the statutory requirement to timely report suspected possible fraud is reasonable.

FHFA's implementing regulation requires an Enterprise to report "immediately" fraud and suspicion of possible fraud with significant impact. FHFA's definition of "possible fraud" caused the Enterprises to conduct inquiries, which may have delayed reporting of possible fraud with potential significant impact. One Enterprise notified the Agency after conducting a six-week inquiry and was unable to state when, during its inquiry, it determined that the fraud allegations warranted "immediate" reporting. We were not able to determine, from the record, whether the Enterprise's "immediate notification" was timely (i.e., within one reporting day). (See [OIG, \*FHFA Should Address the Potential Disparity Between the Statutory Requirement for Fraud Reporting and its Implementing Regulation and Advisory Bulletin\*](#) (COM-2018-002, March 23, 2018)).

## Reports and Recommendations

Below are the 17 audits, evaluations, compliance reviews, special project report, 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 complete list of all reports issued by OIG since its inception.

Report	Date
<a href="#"><u>Performance Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2017</u></a> (AUD-2018-001)	October 17, 2017
<a href="#"><u>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program, Fiscal Year 2017</u></a> (AUD-2018-002)	October 17, 2017
<a href="#"><u>Fannie Mae and Freddie Mac Purchases of Adjustable-Rate Mortgages</u></a> (WPR-2018-001)	January 4, 2018
<a href="#"><u>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</u></a> (EVL-2018-001)	January 31, 2018
<a href="#"><u>Compliance Review of FHFA's Review Process for Transfers of Enterprise Mortgage Servicing Rights</u></a> (COM-2018-001)	February 6, 2018
<a href="#"><u>Enterprise Counterparties: Mortgage Insurers</u></a> (WPR-2018-002)	February 16, 2018
<a href="#"><u>Audit of FHFA's Oversight of Fannie Mae's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV</u></a> (AUD-2018-003)	March 8, 2018
<a href="#"><u>Audit of FHFA's Oversight of Freddie Mac's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV</u></a> (AUD-2018-004)	March 8, 2018
<a href="#"><u>FHFA Completed its Planned Procedures for a 2015 Representation and Warranty Framework Targeted Examination at Fannie Mae, but Did Not Document a Change to Planned Testing</u></a> (AUD-2018-005)	March 13, 2018

Report	Date
<u><i>FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work</i></u> (AUD-2018-006)	March 13, 2018
<u><i>FHFA Should Address the Potential Disparity Between the Statutory Requirement for Fraud Reporting and its Implementing Regulation and Advisory Bulletin</i></u> (COM-2018-002)	March 23, 2018
<u><i>Enterprise Counterparties: Custodial Depository Institutions</i></u> (WPR-2018-003)	March 27, 2018
<u><i>Update on FHFA's Implementation of its Revised Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances</i></u> (COM-2018-003)	March 27, 2018
<u><i>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</i></u> (EVL-2018-002)	March 28, 2018
<u><i>FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</i></u> (EVL-2018-003)	March 28, 2018
<u><i>As Allowed by its Standard, FHFA Closed Three Fannie Mae Cybersecurity MRAs after Independently Determining the Enterprise Completed its Planned Remedial Actions</i></u> (AUD-2018-007)	March 28, 2018
<u><i>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</i></u> (AUD-2018-008)	March 28, 2018

# Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority that is exercised by its Office of Investigations. OI conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies in connection with programs and operations of the Agency and the regulated entities.

Depending on the type of misconduct uncovered, OI investigations may result in criminal charges, civil complaints, and/or administrative sanctions and decisions. Civil claims can lead to settlements or verdicts with restitutions, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs. Criminal charges filed against individuals or entities may result in plea agreements or trials, incarceration, restitution, fines, and penalties. This reporting period, as a result of OIG investigations, 36 defendants were sentenced to an aggregate total of 66 years in prison.

**36**  
**Defendants**  
  
**66**  
**Years in Prison**

OI is staffed with special agents (SAs), investigative counsels, analysts, and attorney advisors. OIG's SAs investigate criminal matters involving allegations of fraud and misconduct.

Various elements contribute to determining the resources needed for each investigation and the length of time necessary to complete each investigation. For example, loan origination and **short sale** schemes—common types of mortgage fraud—can 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. Those investigations require comprehensive document and financial records reviews, victim interviews, 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 determine fraudulent patterns of 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 the scheme is organized, and determine how the perpetrators financially benefitted. In **bankruptcy** or **foreclosure**-delay schemes, SAs cull through documents received by the Enterprises and the FHLBanks, calculate scheme losses, and coordinate with the United States Trustee's Office to determine if fraudulent paperwork has been submitted to initiate a bankruptcy. Other labor-intensive investigations conducted by SAs include **real estate owned (REO)**, multifamily, and adverse possession schemes. Each of these schemes presents with unique circumstances and requires many hours of intense document analysis, potential victim and witness interviews, and other investigative techniques.

To increase OIG's effectiveness, four of OIG's 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.

To maximize criminal and civil law enforcement, OI works closely with other

law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the Department of Housing and Urban Development Office

of Inspector General (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

<b>Figure 2. OI Monetary Results</b>		
October 1, 2017 – March 31, 2018		
	<b>Criminal Investigations</b>	<b>Civil Investigations</b>
Fines*	\$17,128,337	\$–
Settlements	\$–	\$2,002,000,000
Restitutions	\$14,096,593	\$–
<b>Total</b>	<b>\$31,224,930</b>	<b>\$2,002,000,000</b>

\*Fines include criminal fines, forfeiture and special assessments, and civil fines imposed by federal court.

<b>Figure 3. Reports, Referrals, Prosecutions, and Convictions</b>	
October 1, 2017 – March 31, 2018*	
Investigative Reports**	62
Criminal Referrals to DOJ	55
Criminal Referrals to State and Local Prosecuting Authorities	3
Indictments and Informations during the Reporting Period that Resulted from Referral to Prosecutors during Prior Reporting Periods	40
<b>Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals</b>	<b>47</b>
Trials	8
Defendants Tried	14
Convictions/Pleas	48
Sentencings	36

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

Since its inception, OIG has also maintained a hotline to provide easy access for individuals to report tips, complaints, or referrals (TCRs) of alleged violations of criminal and civil laws in connection with programs and operations of the Agency. OI is responsible for conducting a preliminary review of all hotline TCRs. OIG's hotline is staffed by a third-party vendor to protect the anonymity of the callers and to provide easy access for reporting. Every TCR, whether made by telephone directly to the hotline, email, website, or in person, is sent to the hotline and logged by the hotline. Attorneys in OI conduct a preliminary assessment to determine whether further review and investigation is appropriate. During this reporting period, 507 discrete contacts to the hotline were made involving TCRs, and 124 separate TCRs were logged by the hotline.

During the semiannual reporting period, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 47 individuals, the conviction of 48 individuals, and 36 sentencings, as well as court-ordered fines and restitution awards.

Figures 2 and 3 (see above) summarize the results obtained during this reporting period from our investigative efforts.

Below, we discuss some of our civil and criminal cases. For ease of review, we group our criminal investigations during this period into the categories described below. In each category, we describe the nature of the crime and include a few highlights of matters investigated by OIG. For a summary of publicly reportable investigative outcomes for each category during this reporting period, see Appendices C-J.

## **Investigations: Civil Cases**

During the semiannual reporting period, OI continued to actively participate in residential mortgage-backed securities (RMBS) investigations by working closely with U.S. Attorneys' offices to investigate allegations of fraud committed by financial institutions and individuals in connection with RMBS. OI SAs and attorneys reviewed evidence produced by various parties, conducted witness interviews, provided strategic litigation advice, and briefed other law enforcement agencies on the operations of the RMBS market.

### **Barclays Agrees to Pay \$2 Billion in Civil Penalties to Resolve Claims for Fraud in the Sale of RMBS; Two Former Barclays Executives Agree to Pay \$2 Million to Resolve Claims Brought Against Them Individually**

On March 29, 2018, DOJ reached agreement with Barclays Capital, Inc. (Barclays) to settle a civil action filed in December 2016 in which the United States sought civil penalties for alleged conduct related to Barclays' underwriting and issuance of RMBS between 2005 and 2007.

Barclays will pay the United States \$2 billion in civil penalties in exchange for dismissal of the Amended Complaint.

Agreement has also been reached with the two former Barclays executives who were named as defendants in the suit: Paul Menefee, who served as Barclays' head banker on its subprime RMBS **securitizations**, and John Carroll, who served as Barclays' head trader for subprime loan acquisitions. In exchange for dismissal of the claims against them, Menefee and Carroll agreed to pay the United States the combined

*“The actions of Barclays and the two individual defendants resulted in enormous losses to the investors who purchased the Residential Mortgage-Backed Securities backed by defective loans. [The] settlement holds accountable those who waste, steal or abuse funds in connection with FHFA or any of the entities it regulates.”*

*– Inspector General  
Laura S. Wertheimer*

sum of \$2 million in civil penalties. The scheme alleged in the complaint involved 36 RMBS deals in which over \$31 billion worth of subprime and Alt-A mortgage loans were securitized, more than half of which defaulted. The complaint alleged that in publicly filed offering documents and in direct communications with investors and rating agencies, Barclays systematically and intentionally misrepresented key characteristics of the loans it included in these RMBS deals. In general, the borrowers whose loans backed these deals were significantly less creditworthy than Barclays represented, and these loans defaulted at exceptionally high rates early in the life of the deals. In addition, as alleged in the complaint, the mortgaged properties were systematically worth less than what Barclays represented to investors.

### **Civil Complaint Filed Against Foreclosure Law Firm for Systematically Overbilling Fannie Mae for Foreclosure Expenses**

On March 27, 2018, a civil complaint-in-intervention was filed against Rosicki, Rosicki & Associates, P.C. (Rosicki), a foreclosure law firm in New York, and its wholly-owned affiliates, Enterprise Process Service, Inc. (EPS) and Paramount Land, Inc. (Paramount) for engaging in a scheme to generate false and

inflated bills for foreclosure-related expenses and causing those expenses to be submitted to and paid for by Fannie Mae.

As alleged in the complaint, Rosicki acted as counsel to various mortgage servicing companies and in that capacity effectuated mortgage foreclosures on Fannie Mae-owned loans. EPS was a service-of-process company and Paramount was a title search company. Both EPS and Paramount were wholly owned and controlled by the two founding partners of Rosicki.

Rosicki, EPS, and Paramount allegedly perpetrated a scheme whereby Rosicki exclusively engaged EPS and Paramount to serve process and perform title searches that were required to complete mortgage foreclosures on Fannie Mae-owned loans. In reality, however, EPS and Paramount engaged third-party vendors to perform the majority of the work, and then applied exponential markups, as much as 750%, to those vendors' bills for foreclosure-related services, while adding little if any value to the services that the vendors had performed. EPS and Paramount allegedly submitted their marked-up expenses, which significantly exceeded market rates, to Rosicki. Rosicki, in turn, billed the mortgage servicers for those inflated expenses, which Rosicki allegedly represented were the actual expenses incurred for the foreclosure-related services, with knowledge that the mortgage servicers would submit claims to Fannie Mae for full reimbursement of the expenses. The submission of these fraudulently inflated expenses allegedly caused Fannie Mae to pay millions of dollars for falsely inflated foreclosure expenses.

## Investigations: Criminal Cases

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

### Condo Conversion and Builder Bailout Schemes

In these types of 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 we summarize three OIG investigations in this category that resulted in trial convictions, plea agreements and an indictment, and a sentencing with court ordered restitution during this semiannual reporting period. (See Appendix C for a summary of publicly reportable investigative outcomes in this category.)

#### Three Found Guilty in Builder Bailout Fraud Scheme Trial, Illinois

On October 16, 2017, Theodore Wojtas, Jr., Karin Ganser, and David Belconis were convicted by a federal jury on charges of wire fraud and mail fraud for their participation in a mortgage fraud scheme involving the marketing and sale of condominiums at a 50 acre development known as The Woods at Countryside in Palatine, Illinois (the Woods). Belconis was additionally convicted on charges of false statements.

8-27-08

*It Takes Money to Make Money, so...*  
**INVEST TODAY WITH OUR MONEY**

**MAKE BIG MONEY**  
IN TODAY'S REAL ESTATE MARKET  
**USING OUR MONEY**

**WEDNESDAY, AUGUST 20TH, 2008**  
**6:30 PM TO 9:30 PM**

- Wealth accumulation & protection
- Learn new accelerated tax benefits
- Gain access to off market deals nationwide
- Receive assured income for 3 Years
- Have professional management included

**TO REGISTER CALL**  
**800.507.2500**

**Event Location**  
Beau Jolie by Victoria  
9950 Lawrence Ave.  
Schiller Park, IL 60176  
For directions call • 847-671-9975

**Speaker**  
**T.J. Wojtas**

**Self Made Multi-Millionaire!**  
Has Purchased over  
\$100 Million in Real Estate

Come and see as we unlock the SECRETS of the Super Affluent!  
And take advantage of the market with "Our Money"

GOVERNMENT FORBID EX-424

EX004H\_0001 / 1      EX004H\_0001      [Barcode]

Marketing flyer used by defendant.

The co-defendants used an assortment of advertising methods and sales pitches—on air, online, in writing, and at live presentations—to falsely promote the purchase of condominiums at the Woods as a means to financial independence and wealth, enticing prospective condominium buyers with substantial, unsustainable financial incentives, including down payment refunds and up to three years' worth of mortgage payments, maintenance costs, and property tax payments.

Additionally, the co-defendants colluded to misrepresent and conceal material facts from banks and mortgage lenders to fraudulently induce them to approve non-conforming loans to unqualified buyers, thereby exposing lenders and the Enterprises to millions of dollars in potential losses. The Enterprises purchased over \$32 million in mortgage loans that had been made to condominium buyers at the Woods. The fraud scheme caused more than \$16 million in losses to banks, mortgage lenders, and the Enterprises, whose combined losses are over \$1.3 million.



EX001B\_0001 / 1

EX001B\_0001



The Woods at Countryside Leasing Center where the mortgage fraud scheme occurred.

### **Guilty Pleas of Mortgage Loan Officer and Straw Buyers and Indictment of Licensed Mortgage Broker, Florida**

During March 2018, Daniel Cardenas and Abdelghani Mellouki pled guilty to conspiracy to commit wire fraud and conspiracy to commit wire fraud affecting a financial institution, respectively, for their roles in a condominium conversion fraud scheme.

Cardenas was a loan officer at Transcontinental Lending Group (TLG), a company that originated mortgage loans and marketed units at The Preserves at Temple Terrace, a condo conversion project. According to the plea

agreement, to sell the units, Cardenas and other co-conspirators offered incentives to interested buyers, including cash back, down payment assistance, mortgage payments, and homeowner's association dues. The incentives provided to the borrowers were concealed from the lenders. Furthermore, Cardenas and other co-conspirators at TLG prepared and submitted to lenders loan applications that misrepresented the borrowers' incomes, assets, and/or sources of their down payments. One of the buyers was co-defendant Mellouki, who, in coordination with Cardenas and other co-conspirators, knowingly signed fraudulent loan applications submitted to potential lenders.

In related cases, during November to December 2017, Jonathan Marmol, a licensed mortgage broker at TLG, was indicted on charges of conspiracy to commit bank fraud and bank fraud. Joaquin Cadavid, a **straw buyer**, pled guilty to conspiracy to commit bank and wire fraud. Cadavid was additionally ordered to pay \$77,680 in forfeiture. The Enterprises and financial institutions suffered approximately \$6.1 million in losses as a result of the scheme.

### **Sentencing of Recruiter in Builder Bailout Scheme, Illinois**

On November 30, 2017, Leonardo Sanders was sentenced to 28 months in prison, 2 years of supervised release, and ordered to pay over \$1 million in restitution, jointly and severally, for his role in a builder bailout scheme. Sanders, a recruiter, previously pled guilty to bank fraud for conspiring with others to defraud mortgage lenders and financial institutions by obtaining over \$22 million in fraudulent mortgages for the purchase of dozens of condominium units in Illinois.

According to the plea agreement, Sanders received funds from co-conspirators, which he provided to buyers to use as their down payments, pay homeowners assessments, and closing costs. Sanders and others facilitated the production of false loan documents that did not disclose the true source of the buyers' down payments. Sanders recruited straw buyers and coordinated their receipt of down payment funds and other buyer incentives.

Losses to the Enterprises associated with this scheme are greater than \$2 million; overall scheme losses are in excess of \$13 million.

### **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 we summarize four OIG investigations in this category that resulted in trial convictions, plea agreements, and a sentencing with court-ordered restitution during this semiannual reporting period. (See Appendix D for a summary of publicly reportable investigative outcomes in this category.)

### **Trial Conviction of Business Owner in Origination Fraud Scheme, Texas**

On March 15, 2018, a federal jury convicted Chukwuma Osuagwu on charges of bank fraud and conspiracy to commit bank fraud related to a mortgage fraud scheme.

According to evidence presented at trial, Osuagwu engaged in a series of fraudulent real estate transactions in which he either personally purchased or sold to one or more straw buyers or co-conspirators residential condominium units in Dallas, Texas. Osuagwu was able to personally purchase or assist others in purchasing these units by submitting fraudulent documents, including false bank statements, employment letters, IRS W-2 statements, and paystubs fraudulently indicating the purchaser worked for Osuagwu's company, Inforation, Inc. These documents caused financial institutions to issue mortgage loans they otherwise would not have issued. Fraud losses suffered by the banks and Fannie Mae are over \$1.5 million.

**Count 1**  
Evans Purchase of Unit 801 from Osuagwu (GX 20)

**Count 5**  
Mitchell Purchase of Unit 1301 from Osuagwu (GX 58)

617-764-5604 p.20

ISSUED STATEMENT		
1. Employer identification number	2. Federal income tax withheld	3. Federal income tax credit
225864.91	33860.08	
4. Employee's social security number	5. Medicare wages and tips	6. Medicare tax withheld
119519.09	119519.09	1953.03
7. Employer's name, address and ZIP code		
INFORMATION, INC #100A 17330 PRESTON ROAD DALLAS, TX 75252		
8. Social security tax	9. Medicare tax	10. Advance EIC payment
11. Dependent care benefits	12. Nonqualified plans	13. Other
		872.22
14. Total	15. State	16. Other
D 13000.00		
17. Employee's name, address and ZIP code		
EVANS [REDACTED]		
18. State	19. Employer's state ID no.	20. State wages, tips, etc.
21. State income tax	22. Local wages, tips, etc.	23. Local income tax
24. Local income tax	25. Local liability	26. Other

ISSUED STATEMENT		
1. Employer identification number	2. Federal income tax withheld	3. Federal income tax credit
225864.91	33860.08	
4. Employee's social security number	5. Medicare wages and tips	6. Medicare tax withheld
189519.09	189519.09	14930.18
7. Employer's name, address and ZIP code		
INFORMATION, INC #100A 17330 PRESTON ROAD DALLAS, TX 75252		
8. Social security tax	9. Medicare tax	10. Advance EIC payment
11. Dependent care benefits	12. Nonqualified plans	13. Other
		872.22
14. Total	15. State	16. Other
D 33000.00		
17. Employee's name, address and ZIP code		
JAMES MITCHELL [REDACTED]		
18. State	19. Employer's state ID no.	20. State wages, tips, etc.
21. State income tax	22. Local wages, tips, etc.	23. Local income tax
24. Local income tax	25. Local liability	26. Other

Nearly identical fictitious IRS Form W-2s that were used by co-conspirators as supporting documentation for their mortgage applications.

### Guilty Verdict and Plea of Attorney and Loan Officer in Mortgage Fraud Scheme, Illinois

On February 15, 2018, a federal jury convicted Jessica O'Brien of bank fraud and mail fraud affecting a financial institution for fraudulently obtaining loans related to the purchase, maintenance, and sale of properties in Chicago, Illinois. The jury found that O'Brien caused lenders to issue and refinance approximately \$1.4 million in mortgage and commercial loans by making false representations and concealing material facts in documents submitted to the lenders. Trial evidence demonstrated that O'Brien used the fraudulently obtained mortgage loan proceeds to purchase an investment property in Chicago, then refinanced the mortgage on the property and another investment property using fictitious documentation. Additionally, O'Brien obtained a commercial line of credit to maintain the properties, before selling

them to a loan officer—co-defendant Maria Bartko—and a straw buyer whom O'Brien knew would be fraudulently qualified to obtain mortgage loans.

Evidence at trial revealed that O'Brien engaged in the alleged wrongful activities and, while carrying them out, was employed as a Special Assistant Attorney General for the Illinois Department of Revenue, owned a real estate company, and was employed with Bartko as a loan officer at a mortgage company.

On January 26, 2018, co-defendant Bartko pled guilty to mail fraud affecting a financial institution for her role in this scheme.

Freddie Mac suffered losses as a result of this scheme.

## **Real Estate Brokers Enter Guilty Pleas in HELOC “Shotgun” Fraud Scheme, New Jersey**

On November 3, 2017, Simon Curanaj and Michael Arroyo, real estate brokers, pled guilty to conspiracy to commit bank fraud and were subsequently ordered to pay forfeiture of over \$1.2 million and \$5,500, respectively. According to court documents and statements made in court, Curanaj, Arroyo, and other co-conspirators obtained multiple Home Equity Lines of Credit (HELOCs) from multiple banks, utilizing false representations and information, while repeatedly pledging the same property as collateral. The property was pledged as collateral to multiple banks within a short period of time to prevent lenders from discovering the existence of other pending or approved HELOCs. Curanaj, Arroyo, and co-conspirators facilitated the submission of false information to lenders, which ultimately led to the approval and disbursement of HELOC funds in excess of \$1 million. Defendants received tens of thousands of dollars in HELOC proceeds on loans that went into default. Overall scheme losses are estimated to be greater than \$4.5 million.

## **Sentencing of Title Agency Owner, Ohio**

On October 31, 2017, Kimberli Himmel was sentenced to 60 months in prison, 3 years of supervised release, and ordered to pay more than \$2.4 million in restitution for her role in a bank fraud scheme. Himmel previously pled guilty to bank fraud and theft of government funds.

According to the plea agreement, Himmel was the owner and operator of Netwide Title Agency, Inc. (Netwide). Himmel was found to have deceived lenders by directing them to wire escrow funds to her personal bank account instead of the Netwide official escrow account and to have used the funds for her own

personal use and business operating expenses.

Freddie Mac, the investor on several loans involved in this scheme, suffered losses.

## **Loan Modification and Property Disposition Schemes**

These 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 we summarize two OIG investigations in this category that resulted in a plea agreement and a sentencing with court-ordered restitution during this semiannual reporting period. (See Appendix F for a summary of publicly reportable investigative outcomes in this category.)

## **Guilty Plea in Multi-State Loan Modification Scheme with More Than 550 Victims, Kansas**

On January 22, 2018, Tyler Korn pled guilty to conspiracy to commit mail and wire fraud for his role in a loan modification fraud scheme.

According to the plea agreement, Korn was a co-owner and operator of Reliant Home Financial Group. He pled guilty to conspiring with others to defraud distressed homeowners by offering fraudulent loan modifications, lowered interest rates, and lowered monthly mortgage payments.

More than 550 victims have been identified in 24 states, who 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 lenders and the Enterprises caused by subsequent foreclosures.

### **Sentencing of Loan Modification Scheme Operator with Approximately 4,000 Victims, California**

On February 23, 2018, after previously pleading guilty to conspiracy and attempt to evade or defeat tax, Damian Kutzner was sentenced to 70 months in prison, 3 years of supervised release, and ordered to pay \$587,864 in restitution for his role in the operation of a loan modification fraud scheme.

Kutzner and others operated United Law Group (ULG), a California corporation that claimed to be the largest law firm in the United States involved with loan modification and foreclosure prevention law. Kutzner directed and controlled the operations of ULG. According to the plea agreement, Kutzner and others, collectively acting through ULG, defrauded financially distressed homeowners by making false promises, including that ULG had attorneys nationwide working to file class action lawsuits against major lenders that failed to help troubled homeowners. ULG charged fees for their purported attorney services, including fees to negotiate with the homeowners' lenders and to obtain loan modifications. In reality however, ULG attorneys rarely, if ever, negotiated with mortgage lenders and ULG did not have attorneys on staff with sufficient experience to commence the class action lawsuits.

The plea agreement stated that ULG fraudulently collected more than \$3 million from approximately 4,000 victim homeowners with this scheme. The Enterprises, as investors with some of the mortgages in this scheme, suffered losses.

### **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 we summarize an OIG investigation in this category that resulted in a sentencing and court-ordered forfeiture during this semiannual reporting period. (See Appendix E for a summary of publicly reportable investigative outcomes in this category.)

### **Sentencing of Real Estate Flipper in Multi-Million Dollar Mortgage Fraud Scheme, New York**

On January 26, 2018, Dirk Hall was sentenced to 41 months in prison, 5 years of supervised release, and ordered to pay \$550,000 in forfeiture for his role relating to a multi-million dollar mortgage fraud scheme. Hall previously pled guilty to conspiracy to commit bank fraud and wire fraud. Previously, six of Hall's co-conspirators pled guilty in this scheme, and one co-conspirator was convicted at trial.

According to court filings and facts presented at the sentencing hearing, Hall, together with others, caused mortgage loan applications with false information to be submitted to lending institutions to purchase residential properties. These applications contained fraudulently inflated purchase prices, as well as false information about the assets and income of the buyers of the properties, many of whom were being compensated as straw buyers. Hall and his co-conspirators also provided false down payment checks to make it appear as if the straw buyers had made down payments relating to the purchase of the properties, which was a condition of the lending institutions for issuing the mortgage loans.

To conceal their criminal involvement and inflate the value of the properties, Hall and his co-conspirators conducted simultaneous purchases and sales of the properties. To that end, Hall and his co-conspirators used backdated and falsified documents to conceal from the lending institutions that the purchases and sales occurred on the same day and, instead, made it appear as if the transactions between the homeowners and the co-conspirators had occurred over 60 days prior to the sale from the co-conspirators to the straw purchasers.

Because of the false applications and appraisals, the lending institutions were fraudulently induced to issue millions of dollars of mortgage loans secured by properties that had inflated appraisal values to unqualified buyers. In many instances, the straw buyers defaulted on their mortgages. Hall and his co-conspirators profited over \$2.7 million from this scheme which involved over \$5.5 million in mortgage loans, causing losses to financial institutions and Freddie Mac.

### **Adverse Possession and Distressed Property 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 we summarize three OIG investigations in this category that resulted in criminal indictments, trial convictions and a guilty plea, and a sentencing during this semiannual reporting period. (See Appendix

H for a summary of publicly reportable investigative outcomes in this category.)

### **Four Indicted in \$2 Million Mortgage Fraud Scheme, California**

On January 25, 2018, Andrew Valles, Jemal Lilly, Mark Bellinger, and Arnold Millman were indicted for grand theft, filing false or forged documents in a public office, conspiracy, and identity theft for their roles in a large-scale mortgage fraud scheme.

According to an indictment, the defendants allegedly operated “SafeCare,” a fictitious insurance company that purported to sell, for upfront fees, low-interest real estate loans. These fictional loans were offered with no down-payment requirement and were primarily marketed to Latino and African American families. The defendants allegedly filed false bankruptcy and other court documents using fictitious names to delay foreclosure and eviction actions and instructed victims to deposit fees into a bank account they controlled. To further victimize their clients, one defendant allegedly posed as an attorney and charged the victims additional fees for legal services. The victims did not receive real estate loans and in fact, many ultimately lost their homes and life savings. Scheme losses to date are approximately \$2 million to lenders and victims. Potential losses to the Enterprises are \$1 million.

### **Guilty Verdicts and Plea of Family Members in \$30 Million Mortgage Relief Scheme, California**

On December 13, 2017, Jamie Matsuba, and her father, Thomas Matsuba, were convicted after a one-week trial on charges of conspiracy to commit wire fraud, making false statements to federally insured banks, and identity theft.

According to evidence presented at trial, Jamie Matsuba, Thomas Matsuba, and others engaged in a scheme to defraud financially distressed homeowners by offering to prevent foreclosure on their properties through short sales. Instead, the co-defendants rented out the properties to third parties, did not pay the mortgages on the properties, and submitted false and fraudulent documents to mortgage lenders and servicers to delay foreclosure. The evidence further established that the co-defendants obtained mortgages with stolen identities, and used additional fraudulent tactics, including filing bankruptcy in the names of distressed homeowners without their knowledge and fabricating liens on the distressed properties, to further their scheme.

In a related case, on December 4, 2017, Dorothy Matsuba pled guilty to conspiracy to commit wire fraud, wire fraud, making false statements to federally insured banks, and aggravated identity theft.

Fannie Mae's exposure because of this scheme is approximately \$58 million; loss calculations are ongoing.

### **Sentencing in Deed Fraud Scheme Using Forged Fannie Mae Executive's Signature, Texas**

On January 11, 2018, Arnoldo Antonio Ortiz was sentenced to 10 years in prison for his role in a scheme involving the fraudulent deeding of 27 properties valued at over \$18 million to entities or individuals that he controlled. Ortiz previously pled guilty to multiple state charges including theft of property and false statements for property/credit.

The investigation revealed that Ortiz forged the signatures of banks, homeowners, and that of a Fannie Mae Executive Vice President that were filed with the Dallas County Clerk's Office to obtain distressed or foreclosed

properties. Ortiz then changed the locks on the homes, installed over \$50,000 in security equipment, and contracted with home security companies to monitor the stolen properties. Ortiz later listed the stolen properties as collateral on loan applications.

Ortiz defrauded over \$575,000 from banks, investors, renters, and home security companies because of this scheme. Ortiz deeded two Fannie Mae owned properties to himself that caused an exposure of over \$500,000 to Fannie Mae.



Cadillac Escalade purchased by defendant with proceeds from the fraud scheme.

### **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 we summarize three OIG investigations in this category that resulted in trial convictions, a plea, a sentencing, and court-ordered restitution and forfeiture during this semiannual reporting period. (See Appendix J for a summary of publicly reportable investigative outcomes in this category.)

## **Attorney, Former CEO, and Former Chief Loan Officer of Failed Bank Convicted After Trial, California**

On December 18, 2017, Sean Cutting and Brian Melland, former executives of Sonoma Valley Bank (SVB), were convicted of conspiracy, bank fraud, wire fraud, money laundering, falsifying bank records, lying to bank regulators, and other crimes. Co-defendant David Lonich, an attorney for indicted real estate developer Bijan Madjlessi (deceased) was also convicted of conspiracy, bank fraud, wire fraud, attempted obstruction of justice, and other offenses.

The evidence at trial demonstrated that Cutting, Melland, and Lonich were involved in multiple schemes to defraud SVB, which ultimately failed, and other financial institutions. The schemes involved years of illegal lending to Madjlessi, often using straw borrowers, for real estate projects Park Lane Villas in Santa Rosa, California, and Petaluma Greenbriar Apartments in Petaluma, California.

According to the evidence admitted at trial, SVB loaned Madjlessi and persons and entities he controlled more than \$35 million, approximately \$24.7 million more than the legal lending limit set by SVB's regulators. To conceal the high concentration of lending, Melland and Cutting recommended the bank approve multi-million dollar loans to straw borrowers, knowing that millions in loan proceeds to these straw borrowers would go to Madjlessi and the companies he controlled. In total, Cutting and Melland gave Madjlessi and his companies more than \$8.6 million in proceeds from fraudulently obtained loans.

The trial exhibit below represents an email chain from SVB's former Chief Credit Officer, created to document Cutting's request that she remove all references to Madjlessi from the 101 Houseco LLC loan

file one day prior to SVB's examination by the Federal Deposit Insurance Corporation (FDIC) and State of California's Department of Financial Institutions. This was an effort by Cutting to hide the true beneficiary of the 101 Houseco, LLC loan from regulators because he knew SVB could not loan additional funds to Madjlessi.

In addition, Melland was convicted of receiving a bribe from Madjlessi of approximately \$50,000. The day after he received the bribe, Melland recommended that SVB lend approximately \$3.65 million to a straw borrower controlled by Madjlessi.

In another scheme, according to evidence admitted at trial, Lonich conspired with Cutting and Melland to mislead SVB into lending millions to Madjlessi, in the name of a straw borrower, so Madjlessi could illegally buy back a debt he owed to IndyMac Bank. IndyMac Bank had failed and been taken over by the FDIC. The defendants conspired to lend the money to Madjlessi's straw buyer so that Madjlessi could buy the approximately \$27 million debt back for only approximately \$4 million, in violation of FDIC rules that prohibit delinquent borrowers from buying their own, defaulted notes at auction.

Evidence also showed that to help Lonich gain control of additional units at the Park Loan Villas, Cutting issued letters on SVB letterhead stating that Lonich's potential straw buyers had sufficient funds at SVB to purchase the units. Upon learning of the federal investigation, Lonich attempted to obstruct justice by instructing a straw buyer to make false statements to federal agents.

SVB and IndyMac Bank were member banks of the FHLBank of San Francisco. SVB's failure caused more than \$20 million in losses to the taxpayers.

**From:** [REDACTED]  
**Sent:** Thursday, December 17, 2009 11:27 AM  
**To:** Sean Cutting  
**Cc:** Brian S. Melland; [REDACTED]  
**Subject:** 101 Houseco

Sean,  
We reviewed the scanned file on 101 Houseco. It is not possible to remove all references to Bijan from this file. As mention of him or his entities is in the following documents:

Appraisal  
Loan Presentation  
Purchase Agreement  
Assignment of Note  
Probably more.....we stopped here.

Please let us know your thoughts....

[REDACTED]  
SVP/ Chief Credit Officer  
Sonoma Valley Bank  
Phone (707) 933-2089  
Fax (707) 935-5814

---

**From:** Brian S. Melland  
**Sent:** Thursday, December 17, 2009 12:04 PM  
**To:** Sean Cutting  
**Subject:** RE: 101 Houseco

I will get something in writing from Mr. Lonich regarding the foreclosure. Foreclosure would rectify some, if not most, of the issues.

---

**From:** Sean Cutting  
**Sent:** Thursday, December 17, 2009 4:49 PM  
**To:** [REDACTED]  
**Subject:** FW: 101 Houseco

I've got a letter here...I'll bring it by.

-Sean

---

**From:** [REDACTED]  
**Sent:** Friday, December 18, 2009 7:58 AM  
**To:** Sean Cutting  
**Subject:** RE: 101 Houseco

Do you want this scanned?

---

**From:** Sean Cutting <SXC002>  
**Sent:** Friday, December 18, 2009 11:36 AM  
**To:** [REDACTED]@sonomavlybnk.com>  
**Subject:** RE: 101 Houseco

I'll just have Brian keep it in the event the issue comes up...

SVB1257115  
Exh 1436.0001

Evidence presented at trial in the SVB case.

## **Guilty Plea of Mortgage and Title Company Owner in Lien Fraud Scheme, Virginia**

On January 30, 2018, Roberto Jaramillo pled guilty to wire fraud for his role in a misapplied lien funds fraud scheme.

Jaramillo was a licensed mortgage broker and owner of Trust Mortgage LLC (Trust Mortgage), and Trust Title Services LLC (Trust Title). Trust Mortgage brokered loans and used a warehouse line of credit at Ameris Bank to extend loans to borrowers. Trust Title performed closings, or settlements, for sales, purchases, and refinances of real estate. As part of its function, Trust Title transferred liens from one lender to another after disbursing collected funds to satisfy existing liens and mortgages.

In his role as the owner of Trust Mortgage, Jaramillo certified that all funds advanced on the line of credit were maintained in an escrow account and would be disbursed only in accordance with the settlement sheet, or HUD-1.

According to the plea agreement, Jaramillo admitted to transferring funds intended to pay off liens for real estate purchases and refinances and instead, used the funds to pay business expenses and outstanding debts on prior real estate transactions. Neither Ameris Bank nor the title insurance company was aware of his fraudulent actions.

Jaramillo admitted to fraudulently disbursing funds during seven separate real estate transactions. Some loans in this scheme were purchased by the Enterprises. Exposure to lenders and the Enterprises because of this scheme is over \$1.2 million.

## **Former Settlement Agent Sentenced After Guilty Trial Verdict, New Jersey**

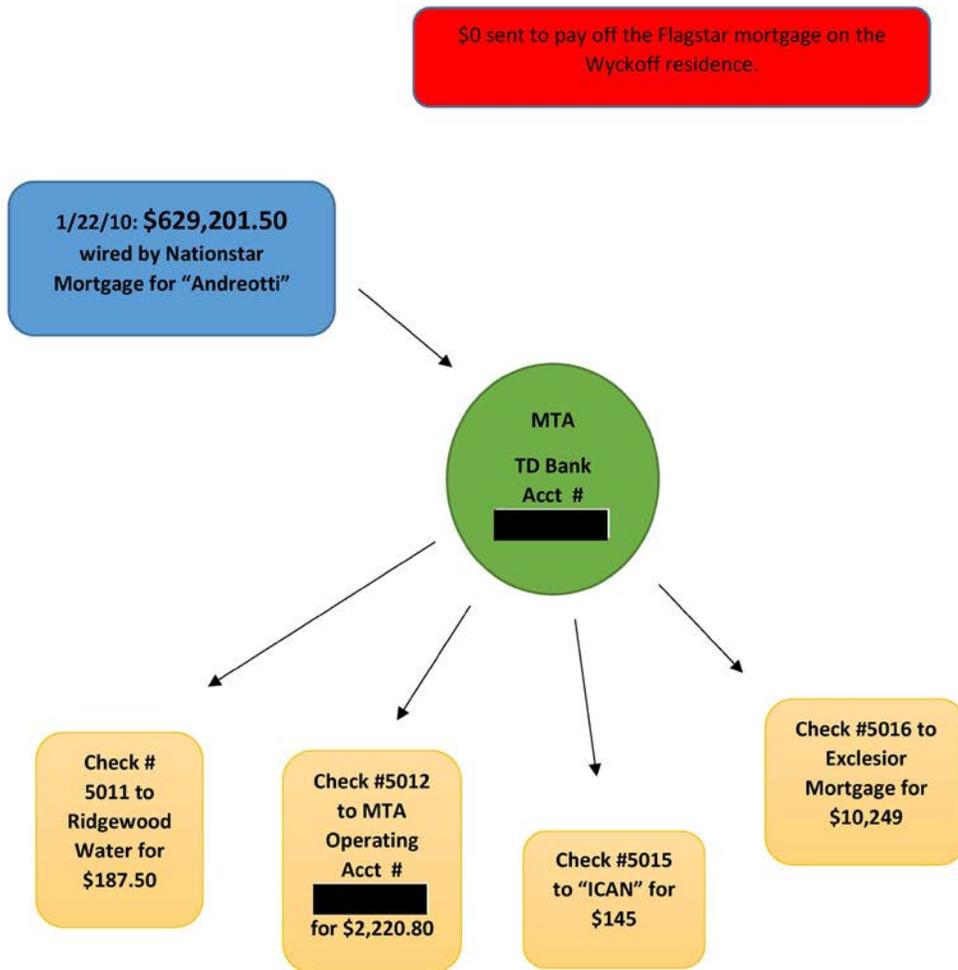
On March 12, 2018, Mark Andreotti was sentenced to 144 months in prison, 5 years of supervised release, and ordered to pay over \$2.1 million in restitution. Andreotti was previously convicted at trial on charges of bank fraud, conspiracy to commit bank fraud, tax evasion, and failure to file tax returns.

According to documents filed in this case and evidence presented at trial, Andreotti submitted a loan application to a bank requesting \$625,000 to refinance his home mortgage. Andreotti, who owned and operated Metropolitan Title and Abstract (Metropolitan), used Metropolitan as the settlement agent on the transaction. After the bank transferred the \$625,000 for the refinance to Metropolitan's escrow account, Andreotti spent the money on other expenses instead of paying off the first mortgage on the house.

Later, Andreotti conspired with another individual who worked as a real estate attorney to obtain \$480,000 by claiming that the money would be used to refinance the mortgage on the attorney's house. After the bank transferred the money for the refinance to Metropolitan's escrow account, Andreotti kept \$110,000 for himself before transferring the remaining funds to the other conspirator.

This scheme resulted in at least \$1.1 million in losses to financial institutions and Fannie Mae.

## FLOW OF FUNDS THROUGH MTA ACCOUNT 4518 FOR THE “WYCKOFF RESIDENCE” TRANSACTION



In the first 6 months of 2010 (January thru June), MTA had deposits totaling \$8,586,432.81. During that same time, withdrawals totaled \$8,843,541.46.

GOVERNMENT  
EXHIBIT  
**900**

Demonstrative trial exhibit illustrating how wired funds of \$629,201.50 that should have been used to pay off Andreotti’s mortgage were instead kept in Andreotti’s trust account and disbursed to pay unrelated mortgages.

## Outreach

OIG develops public-private partnerships where appropriate. It delivered 48 fraud awareness briefings to different audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed and intends to further strengthen ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; FDIC-OIG; IRS-CI; the Office of the Special Inspector General for the Troubled Asset Relief Program; 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 Richmond County, New York, District Attorney's Office; the Los Angeles County Sheriff's Office; the Mesquite, Texas, Police Department; the California Department of Justice; the California Department of Insurance; the Prince George's County, Maryland, Police Department; the Orange County, California, District Attorney's Office; the Miami-Dade Police Department; the Anderson County, Texas, Sheriff's Office; the Stanislas County, California, District Attorney's Office; the New York State Department of Financial Services; the Los Angeles County Recorder's Office; the San Diego County Recorder's Office; the Alameda County Recorder's Office; the California Department of Consumer Affairs; the State Bar of California; the King County, Washington, District Attorney's Office; and the Cedar Hill, Texas, 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 47 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."<sup>2</sup>

During this reporting period, OIG made 27 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program.

A summary of OIG’s referrals during the reporting period is captured in Figure 4 (see below).

<b>Figure 4. Administrative Actions</b>	
October 1, 2017 – March 31, 2018	
Suspension/Debarment Referrals to Other Agencies	47
Suspended Counterparty Program Referrals to FHFA	27

# 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 and briefings to congressional staff on OIG work.

### Hotline

During this reporting period, the OIG hotline continued to serve 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. The individuals reporting can choose to remain anonymous.

### Close Coordination with Other Oversight Organizations

During the reporting period, OIG made numerous presentations to state and local law enforcement agencies, prosecutors, mortgage fraud working groups across the country, and individual federal agencies sometimes involved in mortgage fraud investigations, such as HUD-OIG, FBI, U.S. Postal Inspection Service, IRS-CI, and DOJ.

We maintained active participation in coordinated oversight activities during this reporting period:

- **FBI Cybercrimes Task Force.** The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG has assigned three special agents to it. This multiagency

task force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help 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:
  - o The Inspection and Evaluation Committee
  - o The Investigations Committee
  - o The Audit Committee
- **Council of Inspectors General on Financial Oversight (CIGFO).** CIGFO was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** to oversee the Financial Stability Oversight Council (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 permanent 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.

(nationwide); the Colorado Mortgage Lenders Association; Consumer Protection Week in Los Angeles, California; Fort Stanton Community Center Senior Group; Office of New York City Public Advocate; Reid Temple Senior Group; Office of New York City Comptroller; the American Land Title Association and local and regional banks.

### **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 and make presentations to industry groups. Recent presentations include: the United States Trustee Program (nationwide); the North Texas Consumer Task Force, the Mortgage Bankers Association

# 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.	8-10, 15-27
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	15-27, 54-86
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	54-94
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	28-43, 95-111
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.	53
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.	15-27, 51
Section 5(a)(7) – A summary of each particularly significant report.	10-12, 15-27

Source/Requirement	Pages
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, 26-27, 51
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, 26-27, 51
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.	51
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.	51
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.	54-94
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	51
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	51
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	51-52
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.	52
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	52
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	52

Source/Requirement	Pages
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.	29
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	29
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.	52
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.	52-53
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.	53
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.	53
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.	52-53

## **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 that include 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 management alerts, special reports, status reports, and compliance reviews in furtherance of its mission. During this semiannual reporting period, we had no questioned and unsupported costs identified in an OIG report issued during the period and no recommendations that funds be put to better use.

## **Audit and Evaluation 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 audit, inspection, or evaluation reports issued before October 1, 2017, 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 audit, inspection, or evaluation reports issued before October 1, 2017, 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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, this reporting provision did not apply to the Agency or OIG.

HERA requires the Government Accountability Office (GAO) to audit FHFA financial statements. In its Financial Audit: Federal Housing Finance Agency’s Fiscal Years 2017 and 2016 Financial Statements report, GAO did not identify any deficiencies in FHFA’s internal controls over financial reporting that it considered to be a material weakness or significant deficiency. GAO also reported that its test for compliance with 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.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission Office of Inspector General (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 the 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.

The most recent peer review of our audit organization was conducted by the Pension Benefit Guaranty Corporation Office of Inspector General and reported on February 28, 2017. OIG received a final System Review Report with a rating of pass, which is the highest rating that can be issued to an audit organization.

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

During this semiannual reporting period, we conducted an external peer review of the National Labor Relations Board Office of Inspector General audit organization.

## 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 or (2) government officials found to have engaged in whistleblower retaliation.

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 a senior government employee 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 a senior government employee that is closed and was not disclosed to the public. OIG does not have any reportable information during the applicable time frame.

### **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, confidential supervisory information, trade secrets)—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 which is privileged, confidential, or could be used to circumvent FHFA's internal controls, and, accordingly, OIG has not publicly disclosed such contents. It has provided unredacted reports to its 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 approximately 400 recommendations. Figure 5 (see page 55)

summarizes OIG's recommendations still pending, and includes all recommendations made during this reporting period. Figure 6 (see page 73) summarizes OIG's outstanding unimplemented recommendations. Figure 7 (see page 74) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Figure 8 (see page 87) 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.

**Figure 5.**  
**Summary of OIG Recommendations**

Number	Recommendation	Report Name and Date	Status
<b>AUD-2018-008-1</b>	FHFA should train DER examiners on the elements of the current OPB standard for MRA issuance, follow-up and closure, which include: (a) a requirement that examiners ensure that proposed corrective actions in remedial plans are sufficient to address the deficiency underlying an MRA before issuing non-objection letters; and (b) a requirement that examiners determine, after an Enterprise implements its remedial plan, that the deficiency giving rise to the MRA has been satisfactorily addressed.	<a href="#"><u>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</u></a> (AUD-2018-008, March 28, 2018)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2018-008-2</b>	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].	<a href="#"><u>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</u></a> (AUD-2018-008, March 28, 2018)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>AUD-2018-006-1</b>	FHFA should reinforce, in examiner training, the need to prepare workpapers for targeted examinations with sufficient detail and clarity to provide a third party with a clear understanding of the examination work performed; the examination findings, conclusions, and ratings reached; and any implications of the findings, conclusions, and ratings.	<a href="#">FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work</a> (AUD-2018-006, March 13, 2018)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-010-2</b> <b>AUD-2017-011-1</b>	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: <ul style="list-style-type: none"> <li>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)</li> <li>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)</li> </ul>	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risk at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>AUD-2017-010-3</b> <b>AUD-2017-011-2</b>	FHFA should, except for rare instances where DER has an urgent need to communicate significant supervisory concerns to an Enterprise board, ensure that all supervisory conclusions and findings reported by DER in the Enterprise’s annual reports of examination (ROEs) are based on completed work that has been previously communicated, when required, in writing to the Enterprise.	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risk at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-010-1</b>	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.	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-008-1</b>	FHFA should reinforce the requirements of DEROPB02 and hold DER leadership accountable to ensure that targeted examination conclusions presented in the ROE are based on work that has either (1) undergone quality control review and been communicated in writing to the Enterprise, or (2) the required quality control review has been waived by the Deputy Director of DER and documented in writing.	<a href="#">FHFA’s 2015 Report of Examination to Fannie Mae Failed to Follow FHFA’s Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise’s New Representation and Warranty Framework</a> (AUD-2017-008, September 22, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>AUD-2017-007-1</b>	The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-007-2</b>	The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-007-3</b>	The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-007-4</b>	The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2017-007-5</b>	FHFA should enhance System Owner training to include FHFA access control policies.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	OIG review pending closure.
<b>AUD-2017-007-6</b>	FHFA should review all privileged user accounts, obtain authorizations for users where none are currently documented, and remove access for those not authorized.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>AUD-2017-006-1</b>	<p>FHFA should, based on the goals and requirements of non-performing loan (NPL) sales, as established by the Agency:</p> <ul style="list-style-type: none"> <li>a. Determine the information necessary to assess whether all of the goals and requirements are being met;</li> <li>b. Update/modify the NPL sales reporting requirements as necessary to obtain that information; and</li> <li>c. Update/modify the templates the Enterprises use to collect loan-level data from NPL buyers and servicers, as necessary.</li> </ul>	<p><a href="#">NPL Sales: Additional Controls Would Increase Compliance with FHFA’s Sales Requirements</a> (AUD-2017-006, July 24, 2017)</p>	<p>OIG review pending closure.</p>
<b>AUD-2017-005-2</b>	<p>Because information in the report could be used to circumvent FHFA’s internal controls, it has not been released publicly.</p>	<p><a href="#">FHFA’s Processes for General Support System Component Inventory Need Improvement</a> (AUD-2017-005, May 25, 2017)</p>	<p>OIG review pending closure.</p>

Number	Recommendation	Report Name and Date	Status
<p><b>AUD-2016-007-2</b></p> <p><b>AUD-2016-006-2</b></p>	<p>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.</p>	<p><a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">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</a> (AUD-2016-006, September 30, 2016)</p>	<p>Recommendation partially agreed to by FHFA; implementation of recommendation pending. FHFA provided documentation on August 17, 2017, that it assessed whether staffing levels were sufficient to carry out DER responsibilities for fulfillment of FHFA’s mission for fiscal year 2018. However, we made the same recommendation in AUD-2017-010 and reported the recommendation remained opened.</p>

Number	Recommendation	Report Name and Date	Status
<b>AUD-2012-003-1</b>	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.	<a href="#">FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</a> (AUD-2012-003, March 22, 2012)	Recommendation agreed to by FHFA; implementation of recommendation pending. Based on COM-2016-001, the recommendation was reopened. OIG conducted a review in September 2017 to validate the effectiveness of FHFA's remedial actions and concluded that the record provided an insufficient basis on which to close the recommendation. See COM-2018-003.
<b>EVL-2018-003-1</b>	FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners' independent assessments of Internal Audit's work and specifies the conditions under which examiner testing is expected.	<a href="#">FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</a> (EVL-2018-003, March 28, 2018)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2018-002-1</b>	FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.	<a href="#"><u>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)</u></a>	Recommendation not accepted by FHFA.
<b>EVL-2018-002-2</b>	FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise's Internal Audit function when assessing the adequacy of MRA remediation.	<a href="#"><u>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)</u></a>	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2018-002-3</b>	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.	<a href="#"><u>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)</u></a>	Recommendation not accepted by FHFA.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-1</b>	FHFA should provide guidance to Fannie Mae on FHFA governance expectations regarding authority to review and resolve actual, potential, and apparent conflicts of interest involving SEO positions.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2018-001-2</b>	FHFA should direct Fannie Mae to conduct a comprehensive internal review of its governance documents (both board and management generated) for consistency and clarity, with specific emphasis on the assignment of authority to review and resolve conflict of interest matters involving SEO positions, by seniority and rank, and the process to be used to review and resolve such conflicts.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-3</b>	FHFA should direct the Fannie Mae Board of Directors to review the results of the comprehensive internal review and determine whether authority to review and resolve conflict of interest matters involving specific SEO positions, by seniority and rank, should be vested in a Board committee or delegated to Fannie Mae management, and determine the process to be used to review and resolve such conflicts. Should the Board determine to delegate to management authority to review and resolve all potential, actual, or apparent conflicts of interest involving the CEO and the CEO's direct reports, counsel the Board on the process that should be put into place to require management to report its resolution of all such conflicts to a Board committee for its review.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2018-001-4</b>	FHFA should, to the extent that the Fannie Mae Board of Directors determines to delegate authority to the Chief Compliance and Ethics Officer (CCO) and FM Ethics to review and resolve certain conflicts of interest involving SEOs, counsel the Board to amend the relevant governance documents and establish a reporting relationship between the NGC, FM Ethics, and the CCO.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-5</b>	FHFA should direct FHFA employees to monitor the review and resolution of SEO 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.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2018-001-6</b>	FHFA should direct the NGC to use its authority to retain, as appropriate, independent outside corporate governance experts to assist it in fulfilling its obligations under the NGC Charter.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2018-001-7</b>	FHFA should direct the Fannie Mae Board of Directors to assess the skills and professional experiences of current board members and, as vacancies occur, prioritize candidates with demonstrable expertise in corporate governance.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-8</b>	FHFA should require the NGC to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information between the NGC and other directors and to provide FHFA with sufficient information to enable it to assess whether the NGC is meeting the responsibilities and obligations set forth in its Charter.	<a href="#">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</a> (EVL-2018-001, January 31, 2018).	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2017-006-1</b>	DER should enhance its quality control review program so that examination conclusions from ongoing monitoring activities which do not result in findings or remediation letters are subject to a quality control review prior to being communicated to the Enterprises in ROEs.	<a href="#">The Gap in FHFA’s Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac</a> (EVL-2017-006, August 17, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2017-002-1</b>	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].	<a href="#">FHFA’s Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a> (EVL-2017-002, December 21, 2016)	OIG review pending closure.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2016-007-1</b>	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.	<a href="#"><u>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</u></a> (EVL-2016-007, July 14, 2016)	OIG review pending closure.
<b>EVL-2016-006-1</b>	<p>FHFA should direct the Fannie Mae Board to enhance Fannie Mae’s existing cyber risk management policies to:</p> <ul style="list-style-type: none"> <li>a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates;</li> <li>b. Describe information to be reported to the Board and committees;</li> <li>c. Include a cyber risk framework and cyber risk appetite.</li> </ul>	<a href="#"><u>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</u></a> (EVL-2016-006, March 31, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2016-006-3</b>	<p>FHFA should direct the Fannie Mae Board to oversee management’s efforts to leverage industry standards to:</p> <ul style="list-style-type: none"> <li>a. Protect against and detect existing threats;</li> <li>b. Remain informed on emerging risks;</li> <li>c. Enable timely response and recovery in the event of a breach; and</li> <li>d. Achieve the desired target state of cyber risk management identified in Recommendation 2 above within a time period agreed upon by the Board.</li> </ul>	<p><a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)</p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>
<b>EVL-2016-003-3</b>	<p>FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the National Institute of Standards and Technology (NIST) Framework.</p>	<p><a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)</p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>
<b>EVL-2016-003-4</b>	<p>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.</p>	<p><a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)</p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>

Number	Recommendation	Report Name and Date	Status
<b>EVL-2016-001-1</b>	FHFA should implement detailed risk assessment guidance that provides minimum requirements for risk assessments that facilitate comparable analyses for each Enterprise’s risk positions, including common criteria for determining whether risk levels are high, medium, or low, year over year.	<a href="#"><u>Utility of FHFA’s Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</u></a> (EVL-2016-001, January 4, 2016)	OIG review pending closure.
<b>EVL-2016-001-2</b>	FHFA should implement detailed risk assessment guidance that provides standard requirements for format and the documentation necessary to support conclusions in order to facilitate comparisons between Enterprises and reduce variability among DER’s risk assessments for each Enterprise and between the Enterprises.	<a href="#"><u>Utility of FHFA’s Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</u></a> (EVL-2016-001, January 4, 2016)	OIG review pending closure.
<b>EVL-2016-001-3</b>	FHFA should direct DER to train its examiners-in-charge (EICs) and exam managers in the preparation of semi-annual risk assessments, using enhanced risk assessment guidance consistent with recommendations EVL-2016-001-1 and EVL-2016-001-2.	<a href="#"><u>Utility of FHFA’s Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</u></a> (EVL-2016-001, January 4, 2016)	OIG review pending closure.
<b>EVL-2015-003-2</b>	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	<a href="#"><u>Women and Minorities in FHFA’s Workforce</u></a> (EVL-2015-003, January 13, 2015)	Recommendation agreed to by FHFA; implementation of recommendation pending.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2014-002-2</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2014-002-3</b>	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2013-012-2</b>	FHFA should require Fannie Mae to: <ul style="list-style-type: none"> <li>Quantify and aggregate its overpayments to servicers regularly;</li> <li>Implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>Report its findings and progress to FHFA periodically.</li> </ul>	<a href="#">Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)	OIG review pending closure.
<b>EVL-2013-010-1</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.
<b>EVL-2013-010-3</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.

Number	Recommendation	Report Name and Date	Status
<b>EVL-2013-010-4</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.
<b>EVL-2012-005-2</b>	To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of: <ul style="list-style-type: none"> <li>• Establishing maximum overall exposure limits;</li> <li>• Lowering the existing individual counterparty limits; and</li> <li>• Ensuring that the unsecured exposure limits are consistent with the FHLBank System’s housing mission.</li> </ul>	<a href="#">FHFA’s Oversight of the Federal Home Loan Banks’ Unsecured Credit Risk Management Practices</a> (EVL-2012-005, June 28, 2012)	OIG review pending closure.
<b>COM-2015-001-1</b>	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 <b>government-sponsored enterprise (GSE)</b> examinations.	<a href="#">OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015)	OIG review pending closure.

Number	Recommendation	Report Name and Date	Status
<b>OIG-2017-005-1</b>	FHFA, as conservator, should direct the Freddie Mac Board to clarify the scope of the Nominating and Governance Committee’s responsibilities under its Charter that relate to conflicts of interest involving executive officers.	<a href="#"><u>Management Alert— Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac’s Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors</u></a> (OIG-2017-005, September 27, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-005-2</b>	FHFA, as conservator, should direct Freddie Mac to revise its policies and procedures to align with the responsibilities assigned to the Nominating and Governance Committee and facilitate the Nominating and Governance Committee’s execution of its responsibilities.	<a href="#"><u>Management Alert— Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac’s Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors</u></a> (OIG-2017-005, September 27, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.

**Figure 6.<sup>1</sup>****Summary of OIG Outstanding Unimplemented Recommendations**

<b>Fiscal Year</b>	<b>Number of Unimplemented Recommendations</b>	<b>Total Number of Reports with Unimplemented Recommendations</b>	<b>Dollar Value of Aggregate Potential Cost Savings</b>
2012	2 open recommendations 0 closed, rejected recommendations	2	\$–
2013	4 open recommendations 1 closed, rejected recommendation	2	\$–
2014	2 open recommendations 8 closed, rejected recommendations	7	\$5,015,505
2015	2 open recommendations 1 closed, rejected recommendation	3	\$–
2016	9 open recommendations 13 closed, rejected recommendations	13 <sup>2</sup>	\$–
2017	16 open recommendations 2 closed, rejected recommendations	10 <sup>3</sup>	\$–
2018	15 open recommendations 0 closed, rejected recommendations	5	\$–
TOTAL	50 open recommendations 25 closed, rejected recommendations	42	\$5,015,505

<sup>1</sup> Figure 6 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.

<sup>2</sup> 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.

<sup>3</sup> As with 2016, some audit recommendations appear in two reports (AUD-2017-010 and AUD-2017-011). Recommendations are counted only once; reports are counted separately.

Figure 7.

## Summary of OIG Open Recommendations

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Open Recommendations</b>			
<b>Conservatorship: Delegated Responsibilities</b>			
<b>Development of Common Securitization Platform</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (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	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (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	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)
<b>Review and Enhancement of Underwriting Standards</b>	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances, including escalation of unresolved issues reflecting potential lack of agreement.	Improved oversight	<a href="#">FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</a> (AUD-2012-003, March 22, 2012); <i>see also</i> <a href="#">Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances</a> (COM-2016-001, December 17, 2015) and <a href="#">Update on FHFA's Implementation of its Revised Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances</a> (COM-2018-003, March 27, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Conflicts of Interest</b>	FHFA should provide guidance to Fannie Mae on FHFA governance expectations regarding authority to review and resolve actual, potential, and apparent conflicts of interest involving SEO positions.	Improved oversight	<a href="#">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)</a>
	FHFA should direct Fannie Mae to conduct a comprehensive internal review of its governance documents (both board and management generated) for consistency and clarity, with specific emphasis on the assignment of authority to review and resolve conflict of interest matters involving SEO positions, by seniority and rank, and the process to be used to review and resolve such conflicts.	Improved oversight	<a href="#">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)</a>
	FHFA should direct the Fannie Mae Board of Directors to review the results of the comprehensive internal review and determine whether authority to review and resolve conflict of interest matters involving specific SEO positions, by seniority and rank, should be vested in a Board committee or delegated to Fannie Mae management, and determine the process to be used to review and resolve such conflicts. Should the Board determine to delegate to management authority to review and resolve all potential, actual, or apparent conflicts of interest involving the CEO and the CEO's direct reports, counsel the Board on the process that should be put into place to require management to report its resolution of all such conflicts to a Board committee for its review.	Improved oversight	<a href="#">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)</a>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
FHFA should, to the extent that the Fannie Mae Board of Directors determines to delegate authority to the CCO and FM Ethics to review and resolve certain conflicts of interest involving SEOs, counsel the Board to amend the relevant governance documents and establish a reporting relationship between the NGC, FM Ethics, and the CCO.	Improved oversight	<a href="#">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)</a>	
FHFA should direct FHFA employees to monitor the review and resolution of SEO 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	<a href="#">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)</a>	
FHFA should direct the NGC to use its authority to retain, as appropriate, independent outside corporate governance experts to assist it in fulfilling its obligations under the NGC Charter.	Improved oversight	<a href="#">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)</a>	
FHFA should direct the Fannie Mae Board of Directors to assess the skills and professional experiences of current board members and, as vacancies occur, prioritize candidates with demonstrable expertise in corporate governance.	Improved oversight	<a href="#">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)</a>	
FHFA should require the NGC to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information between the NGC and other directors and to provide FHFA with sufficient information to enable it to assess whether the NGC is meeting the responsibilities and obligations set forth in its Charter.	Improved oversight	<a href="#">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)</a>	

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA, as conservator, should direct the Freddie Mac Board to clarify the scope of the Nominating and Governance Committee’s responsibilities under its Charter that relate to conflicts of interest involving executive officers.	Improved oversight	<a href="#">Management Alert: Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac’s Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors (OIG-2017-005, September 27, 2017)</a>
	FHFA, as conservator, should direct Freddie Mac to revise its policies and procedures to align with the responsibilities assigned to the Nominating and Governance Committee and facilitate the Nominating and Governance Committee’s execution of its responsibilities.	Improved oversight	<a href="#">Management Alert: Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac’s Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors (OIG-2017-005, September 27, 2017)</a>
<b>Compliance with Requirements</b>	<p>FHFA should, based on the goals and requirements of NPL sales, as established by the Agency:</p> <ol style="list-style-type: none"> <li>a. Determine the information necessary to assess whether all of the goals and requirements are being met;</li> <li>b. Update/modify the NPL sales reporting requirements as necessary to obtain that information; and</li> <li>c. Update/modify the templates the Enterprises use to collect loan-level data from NPL buyers and servicers, as necessary.</li> </ol>	Improved compliance	<a href="#">NPL Sales: Additional Controls Would Increase Compliance with FHFA’s Sales Requirements (AUD-2017-006, July 24, 2017)</a>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Supervision</b>			
<b>Examiner Capacity</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (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	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017)
<b>Accreditation of Examiners</b>	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 (GSE) examinations.	Improved quality	<a href="#">OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015)
<b>Quality Control</b>	DER should enhance its quality control review program so that examination conclusions from ongoing monitoring activities which do not result in findings or remediation letters are subject to a quality control review prior to being communicated to the Enterprises in ROEs.	Improved quality	<a href="#">The Gap in FHFA's Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac</a> (EVL-2017-006, August 17, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should reinforce the requirements of DER-OPB-02 and hold DER leadership accountable to ensure that targeted examination conclusions presented in the ROE are based on work that has either (1) undergone quality control review and been communicated in writing to the Enterprise, or (2) the required quality control review has been waived by the Deputy Director of DER and documented in writing.	Improved quality	<a href="#">FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework (AUD-2017-008, September 22, 2017)</a>
<b>Risk Assessments for Supervisory Planning</b>	FHFA should implement detailed risk assessment guidance that provides minimum requirements for risk assessments that facilitate comparable analyses for each Enterprise's risk positions, including common criteria for determining whether risk levels are high, medium, or low, year over year.	Improved understanding of risk	<a href="#">Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (EVL-2016-001, January 4, 2016)</a>
	FHFA should implement detailed risk assessment guidance that provides standard requirements for format and the documentation necessary to support conclusions in order to facilitate comparisons between Enterprises and reduce variability among DER's risk assessments for each Enterprise and between the Enterprises.	Improved understanding of risk	<a href="#">Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (EVL-2016-001, January 4, 2016)</a>
	FHFA should direct DER to train its EICs and exam managers in the preparation of semi-annual risk assessments, using enhanced risk assessment guidance consistent with recommendations EVL-2016-001-1 and EVL-2016-001-2.	Improved understanding of risk	<a href="#">Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (EVL-2016-001, January 4, 2016)</a>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<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"> <li>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)</li> <li>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)</li> </ul>	Improved supervision	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)
<b>Targeted Examinations Completed</b>	<p>FHFA should reinforce, in examiner training, the need to prepare workpapers for targeted examinations with sufficient detail and clarity to provide a third party with a clear understanding of the examination work performed; the examination findings, conclusions, and ratings reached; and any implications of the findings, conclusions, and ratings.</p>	Improved supervision	<a href="#">FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work</a> (AUD-2018-006, March 13, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	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	<a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">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</a> (AUD-2016-006, September 30, 2016)
<b>Communication of Deficiencies to Enterprise Boards</b>	FHFA should, except for rare instances where DER has an urgent need to communicate significant supervisory concerns to an Enterprise board, ensure that all supervisory conclusions and findings reported by DER in the Enterprise’s annual ROEs are based on completed work that has been previously communicated, when required, in writing to the Enterprise.	Improved supervision	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Assessing Remediation of Deficiencies</b>	<p>FHFA should train DER examiners on the elements of the current OPB standard for MRA issuance, follow-up and closure, which include: (a) a requirement that examiners ensure that proposed corrective actions in remedial plans are sufficient to address the deficiency underlying an MRA before issuing non-objection letters; and (b) a requirement that examiners determine, after an Enterprise implements its remedial plan, that the deficiency giving rise to the MRA has been satisfactorily addressed.</p>	Improved remediation of deficiencies	<p><a href="#">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</a> (AUD-2018-008, March 28, 2018)</p>
	<p>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].</p>	Improved remediation of deficiencies	<p><a href="#">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</a> (AUD-2018-008, March 28, 2018)</p>
	<p>FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners’ independent assessments of Internal Audit’s work and specifies the conditions under which examiner testing is expected.</p>	Improved remediation of deficiencies	<p><a href="#">FHFA’s Adoption of Clear Guidance on the Review of the Enterprises’ Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</a> (EVL-2018-003, March 28, 2018)</p>
	<p>FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.</p>	Improved remediation of deficiencies	<p><a href="#">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</a> (EVL-2018-002, March 28, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise’s Internal Audit function when assessing the adequacy of MRA remediation.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">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</a> (EVL-2018-002, March 28, 2018)</p>
	<p>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.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">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</a> (EVL-2018-002, March 28, 2018)</p>
	<p>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.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">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</a> (EVL-2016-007, July 14, 2016)</p>
<p><b>Extension of Unsecured Credit by Federal Home Loan Banks</b></p>	<p>To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of:</p> <ul style="list-style-type: none"> <li>• Establishing maximum overall exposure limits;</li> <li>• Lowering the existing individual counterparty limits; and</li> <li>• Ensuring that the unsecured exposure limits are consistent with the FHLBank System’s housing mission.</li> </ul>	<p>Improved compliance</p>	<p><a href="#">FHFA’s Oversight of the Federal Home Loan Banks’ Unsecured Credit Risk Management Practices</a> (EVL-2012-005, June 28, 2012)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Counterparties</b>			
<b>Collection of Funds from Servicers</b>	<p>FHFA should require Fannie Mae to:</p> <ul style="list-style-type: none"> <li>Quantify and aggregate its overpayments to servicers regularly;</li> <li>Implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>Report its findings and progress to FHFA periodically.</li> </ul>	Improved financial management	<a href="#">Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)
<b>Compliance with Advisory Bulletins</b>	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	<a href="#">FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a> (EVL-2017-002, December 21, 2016)
<b>Information Technology</b>			
<b>FHFA Information Technology Security</b>	Because information in the report could be used to circumvent FHFA's internal controls, the recommendations have not been released publicly.	Improved information security	<a href="#">FHFA's Processes for General Support System Component Inventory Need Improvement</a> (AUD-2017-005, May 25, 2017)
<b>Information Technology Risk Examinations</b>	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	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (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	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Cyber Risk Oversight</b>	<p>FHFA should direct the Fannie Mae Board to enhance Fannie Mae’s existing cyber risk management policies to:</p> <ul style="list-style-type: none"> <li>a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates;</li> <li>b. Describe information to be reported to the Board and committees;</li> <li>c. Include a cyber risk framework and cyber risk appetite.</li> </ul>	Improved risk management	<a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)
	<p>FHFA should direct the Fannie Mae Board to oversee management’s efforts to leverage industry standards to:</p> <ul style="list-style-type: none"> <li>a. Protect against and detect existing threats;</li> <li>b. Remain informed on emerging risks;</li> <li>c. Enable timely response and recovery in the event of a breach; and</li> <li>d. Achieve the desired target state of cyber risk management identified in Recommendation 2 above within a time period agreed upon by the Board.</li> </ul>	Improved risk management	<a href="#">Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)
<b>Privacy Information and Data Protection</b>	<p>The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	<p>The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	<p>The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	FHFA should enhance System Owner training to include FHFA access control policies.	Improved information security	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	FHFA should review all privileged user accounts, obtain authorizations for users where none are currently documented, and remove access for those not authorized.	Improved information security	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
<b>Agency Operations</b>			
<b>Oversight of FHFA Workforce Matters</b>	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	Improved opportunities and oversight	<a href="#">Women and Minorities in FHFA's Workforce</a> (EVL-2015-003, January 13, 2015)

**Figure 8.**

## Summary of Closed, Unimplemented Recommendations

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Property Inspection Quality Controls</b>	FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	Improved quality	<a href="#">FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</a> (AUD-2014-012, March 25, 2014)
<b>Improperly Reimbursed Property Inspection Claims</b>	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	<a href="#">FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</a> (AUD-2014-005, January 15, 2014)
<b>Seller/Servicer Resolution of Aged Repurchase Demands</b>	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	<a href="#">FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</a> (AUD-2014-009, February 12, 2014)
<b>Oversight of Enterprise Implementation of Representation and Warranty Framework</b>	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	<a href="#">FHFA's Representation and Warranty Framework</a> (AUD-2014-016, September 17, 2014)
<b>Seller/Servicer Compliance with Guidance</b>	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	<a href="#">FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</a> (AUD-2014-018, September 26, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Collection of Funds from Servicers</b>	FHFA should publish Fannie Mae’s reduction targets and overpayment findings.	Improved transparency	<a href="#">Evaluation of Fannie Mae’s Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)
<b>Examination Recordkeeping Practices</b>	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	<a href="#">Evaluation of the Division of Enterprise Regulation’s 2013 Examination Records: Successes and Opportunities</a> (EVL-2015-001, October 6, 2014)
<b>Oversight of Enterprise Executive Compensation</b>	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	<a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a> (COM-2016-002, March 17, 2016)
	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.	Improved oversight	<a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a> (COM-2016-002, March 17, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Servicing Alignment Initiative</b>	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	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (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	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (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	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Targeted Examinations Completed</b>	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.	Improved supervision	<a href="#">FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">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</a> (AUD-2016-006, September 30, 2016); <a href="#">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</a> (AUD-2016-005, September 30, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Enterprise Remediation of Deficiencies</b>	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.	Improved remediation of deficiencies	<a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004), March 29, 2016)
	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.	Improved remediation of deficiencies	<a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)
<b>Communication of Deficiencies to Enterprise Boards</b>	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.	Improved Board oversight	<a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016)

Specific Risk to be Mitigated	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"> <li>• 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</li> <li>• 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.</li> </ul>	Improved Board oversight	<a href="#">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</a> (EVL-2016-009, July 14, 2016)
	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.	Improved Board oversight	<a href="#">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</a> (EVL-2016-009, July 14, 2016)
<b>Assessing Remediation of Deficiencies</b>	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).	Improved remediation of deficiencies	<a href="#">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</a> (EVL-2016-007, July 14, 2016)

Specific Risk to be Mitigated	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	<a href="#">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</a> (EVL-2016-007, July 14, 2016)
<b>Identification of Deficiencies and Their Root Causes</b>	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	<a href="#">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</a> (EVL-2016-008, July 14, 2016)
<b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>	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 buildout plans and associated budget(s), as Fannie Mae continues to revise and refine them.	Improved oversight	<a href="#">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</a> (COM-2016-004, June 16, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to DOC for its review and for FHFA approval through the design and construction of Fannie Mae’s leased space in Midtown Center.	Improved oversight	<a href="#">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</a> (COM-2016-004, June 16, 2016)
<b>Conflicts of Interest</b>	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).	Improved oversight	<a href="#">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</a> (OIG-2017-004, March 23, 2017)
	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).	Improved oversight	<a href="#">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</a> (OIG-2017-004, March 23, 2017)

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

In these types of 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, their roles, the most recent actions in the cases and the date of those actions.

<b>Guilty Pleas of Loan Officer and Straw Buyers, Indictment of Mortgage Broker, and Ordered Forfeiture, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Daniel Cardenas	Loan Officer	Pled guilty to conspiracy to commit wire fraud.	March 28, 2018
Abdelghani Mellouki	Straw Buyer	Pled guilty to conspiracy to commit wire fraud affecting a financial institution.	March 6, 2018
Carlos Escarria	Real Estate Sales Associate	Ordered to pay \$83,512 in forfeiture.	January 26, 2018
Joaquin Cadavid	Straw Buyer	Pled guilty to conspiracy to commit bank and wire fraud and ordered to pay \$77,680 in forfeiture.	November 30, 2017
Jonathan Marmol	Mortgage Broker	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	November 16, 2017
<b>Attorney Charged and Guilty Pleas of Real Estate Developer, Accountant, and Straw Buyer in Condominium Scheme, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Stephen McKenzie	Straw Buyer	Pled guilty to conspiracy to commit false statements.	March 20, 2018
Eric Granitur	Attorney/ Escrow Agent	Charged by superseding indictment with conspiracy to commit false statements on a loan and credit application and false statements on a loan and credit application.	March 8, 2018
George Heaton	Real Estate Developer	Pled guilty to conspiracy to commit false statements to a federally insured institution.	January 18, 2018
Deborah Dentry Baggett	Accountant	Pled guilty to conspiracy to commit false statements to a federally insured institution.	January 11, 2018

### Guilty Pleas, Sentencings, and Ordered Restitution in Condominium Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Maria Rosa Diaz	President of Mortgage Brokerage Business/Recruiter	Sentenced to 24 months in prison and 5 years of supervised release.	March 16, 2018
Jenny Nillo	Marketing Company Operator/Recruiter	Sentenced to 36 months in prison and 3 years of supervised release.	February 27, 2018
Barbara Zas	Recruiter	Sentenced to 5 years of supervised release.	February 16, 2018
Carlos Mesa, Jr.	Straw Buyer	Ordered to pay \$240,249 in restitution, joint and several.	January 24, 2018
Yanet Huet	Straw Buyer	Sentenced to 5 years of supervised release; later ordered to pay \$152,206 in restitution, joint and several.	October 30, 2017 & January 24, 2018
Hector Santana	Director of Sales/Recruiter	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	January 24, 2018
Barbara Camayd	President of Title Company	Pled guilty to conspiracy to commit bank and wire fraud affecting a financial institution.	January 18, 2018
Yipsy Rabelo Clavejo	Straw Buyer	Pled guilty to conspiracy to commit bank and wire fraud affecting a financial institution.	January 18, 2018
Miguel Faraldo	Marketing Company Operator/Recruiter	Sentenced to 18 months in prison and 5 years of supervised release.	November 30, 2017
Miguel Soto, Jr.	Acting Manager/Recruiter	Pled guilty to conspiracy to commit bank and wire fraud affecting a financial institution.	November 9, 2017

### Sentencing and Two Acquitted at Trial in Bank Fraud Scheme, Texas

Defendant	Role	Most Recent Action	Date
Daniel Bomar	Escrow Officer	Sentenced to 3 years of probation and ordered to pay \$613,193 in restitution.	January 3, 2018
Brett Immel	Partner at Hanover Companies	Acquitted at trial.	December 22, 2017
James Wright	Title Attorney	Acquitted at trial.	December 22, 2017

### Sentencings of Attorney and Licensed Real Estate Professional in Condominium Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Angel Garcia-Oliver	Former Attorney and Principal of Garcia-Oliver & Mainieri, P.A.	Sentenced to 30 months in prison and 3 years of supervised release.	December 12, 2017
David Cevallos	Real Estate Professional	Sentenced to time served, 3 years of supervised release, and ordered to pay \$142,386 in restitution.	November 29, 2017

### Sentencing of Recruiter in Builder Bailout Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Leonardo Sanders	Recruiter	Sentenced to 28 months in prison, 2 years of supervised release, and ordered to pay \$1,006,035 in restitution, joint and several.	November 30, 2017

### Sentencing of Owner/Developer in Condominium Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Brian Allard	Owner/Developer	Sentenced to 3 years of probation and ordered forfeiture of assets valued at \$103,818 and ordered to pay \$1,417,982 in restitution, joint and several.	November 13, 2017

### Three Found Guilty at Trial in Builder Bailout Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Theodore Wojtas, Jr.	Real Estate Developer	Found guilty at trial on charges of wire fraud and mail fraud.	October 16, 2017
Karin Ganser	Real Estate Salesperson	Found guilty at trial on charges of wire fraud and mail fraud.	October 16, 2017
David Belconis	Attorney	Found guilty at trial on charges of wire fraud, mail fraud, and false statements.	October 16, 2017

# 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.

Trial Conviction of Buyer/Seller in Origination Fraud Scheme, Texas			
Defendant	Role	Most Recent Action	Date
Chukwuma Osuagwu	Buyer/Seller	Convicted at trial on charges of bank fraud and conspiracy to commit bank fraud.	March 15, 2018
Trial Conviction of Attorney and Guilty Plea of Loan Officer in Mortgage Fraud Scheme, Illinois			
Defendant	Role	Most Recent Action	Date
Jessica Arong O'Brien	Attorney/ Loan Officer/ Real Estate Agent	Convicted at trial on charges of bank fraud and mail fraud affecting a financial institution.	February 15, 2018
Maria Bartko	Loan Officer	Pled guilty to mail fraud affecting a financial institution.	January 26, 2018
Sentencings of Loan Officer and Recruiter in Origination Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Lazaro Rojas	Loan Officer/ Recruiter	Sentenced to 20 months in prison, 5 years of supervised release, and ordered to pay \$811,643 in restitution, joint and several.	February 7, 2018
Adrian Diaz De Villegas	Recruiter	Sentenced to 14 months in prison, 5 years of supervised release, and ordered to pay \$811,643 in restitution, joint and several.	January 17, 2018
Two Charged in Loan Modification Fraud Scheme, New York			
Defendant	Role	Most Recent Action	Date
Anthony Calascione	Participant	Charged by state felony complaint with residential mortgage fraud, grand larceny, offering a false instrument for filing, and criminal tax fraud.	December 19, 2017
Catherine McKeon	Participant	Charged by state felony complaint with residential mortgage fraud, grand larceny, offering a false instrument for filing, and criminal tax fraud.	December 19, 2017

### Real Estate Brokers Plead Guilty in HELOC “Shotgun” Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Simon Curanaj	Real Estate Broker	Pled guilty to conspiracy to commit bank fraud and ordered to pay \$1,206,160 in forfeiture.	November 3, 2017
Michael Arroyo	Real Estate Broker	Pled guilty to conspiracy to commit bank fraud and ordered to pay \$5,500 in forfeiture.	November 3, 2017

### Sentencing of Title Agency Owner, Ohio

Defendant	Role	Most Recent Action	Date
Kimberli Himmel	Title Agency Owner	Sentenced to 60 months in prison, 3 years of supervised release, and ordered to pay \$2,479,248 in restitution.	October 31, 2017

### Attorney/Title Company Owner Sentenced in Bank Fraud Scheme, Massachusetts

Defendant	Role	Most Recent Action	Date
Margaret Connolly	Attorney/Title Company Owner	Sentenced to 2 years in prison, 3 years of supervised release, and ordered to pay \$1,267,000 in restitution and \$1,377,000 in forfeiture.	October 24, 2017

### Sentencing in Loan Origination Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Melissa Phillip	Participant	Sentenced to 2 years of probation.	October 18, 2017

# 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.

<b>Guilty Pleas in Short Sale Fraud Scheme, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Louis Virzi	Scheme Participant	Pled guilty to conspiracy to commit bank fraud.	March 2, 2018
Christopher Campbell	Scheme Participant	Pled guilty to conspiracy to commit bank fraud.	March 2, 2018
<b>Sentencing of Real Estate Buyer/Flipper in Multi-Million Dollar Mortgage Fraud Scheme, New York</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Dirk Hall	Real Estate Buyer/Flipper	Sentenced to 41 months in prison, 5 years of supervised release, and ordered to pay \$550,000 in forfeiture.	January 26, 2018
<b>Sentencing of Title Company Owner, Maryland</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Marla Messenger	Owner	Sentenced to 24 months in prison and 3 years of supervised release; later ordered to pay \$40,000 in forfeiture.	December 19, 2017 & January 2, 2018
<b>Attorney Convicted at Trial in Short Sale Fraud Scheme, California</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Robert Farrace	Attorney	Convicted at trial on charges of wire fraud.	November 14, 2017

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

These 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.

Charges Filed on Former Couple and Family Member for Operating a Nationwide Loan Modification Scheme, California			
Defendant	Role	Most Recent Action	Date
Kevin Suleiman	Participant	Charged by amended felony complaint with conspiracy, grand theft, money laundering, and unlawful loan modification advance fees.	March 9, 2018
Assad Suleiman	Participant	Charged by information with conspiracy, grand theft, money laundering, and burglary.	December 7, 2017
Rosa Barraza	Participant	Charged by information with conspiracy, grand theft, money laundering, and burglary.	December 7, 2017
Sentencing in Loan Modification Scheme with over 4,000 Victims, California			
Defendant	Role	Most Recent Action	Date
Damian Kutzner	Participant	Sentenced to 70 months in prison, 3 years of supervised release, and ordered to pay \$587,864 in restitution.	February 23, 2018
Guilty Plea of Business Owner in Multi-State Loan Modification Scheme with over 550 Victims, Kansas			
Defendant	Role	Most Recent Action	Date
Tyler Korn	Business Owner	Pled guilty to conspiracy to commit mail and wire fraud.	January 22, 2018
Loan Modification Fraud Scheme Operator Charged, Michigan			
Defendant	Role	Most Recent Action	Date
Robert Ready	Owner	Charged by state misdemeanor complaint with credit service act violations.	January 16, 2018

### Sentencings in Foreclosure Rescue Fraud Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Rene de Jesus de Leon	Participant	Sentenced to 30 months in prison, 3 years of supervised release, and ordered to pay \$649,855 in restitution, joint and several.	December 14, 2017
Pedrina Rodriguez Bonilla (also known as Pedrina Rodriguez)	Participant	Sentenced to time served, 3 years of supervised release, and ordered to pay \$463,685 in restitution, joint and several.	December 13, 2017
Ana Gomez	Participant	Sentenced to 30 months in prison, 3 years of supervised release, and ordered to pay \$205,280 in restitution.	October 12, 2017

### Sentencings in Nationwide Loan Modification Scheme with More Than 10,000 Victims, Utah

Defendant	Role	Most Recent Action	Date
John McCall	Co-Owner	Sentenced to 12 months in prison, 36 months of supervised release, and ordered to pay \$415,940 in restitution, joint and several.	November 16, 2017
Jeremiah Barrett	Recruiter	Sentenced to 5 years of probation, and ordered to pay \$108,989 in restitution and \$232,400 in forfeiture.	November 6, 2017
James Creasey	Recruiter	Sentenced to 5 years of probation, and ordered to pay \$121,711 in restitution and \$259,528 in forfeiture.	November 6, 2017

### Indictment in Foreclosure Rescue Fraud Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Paul Randall	Participant	Charged by indictment with theft, failure to provide a contract, receive payments in advance, failure to exercise duty of care, and practicing law without admission to the Bar.	November 2, 2017

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

Numerous foreclosures left the Enterprises with an inventory of REO properties. 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.

Indictment of Fannie Mae Employee for REO Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
Shirene Hernandez	Former Fannie Mae Employee	Charged by indictment with wire fraud involving deprivation of honest services.	January 24, 2018
Sentencing of CEO in Property Investment Scheme, Michigan			
Defendant	Role	Most Recent Action	Date
Sameer Beydoun	Founder and CEO of company	Sentenced to 24 months in prison, 3 years of supervised release; later ordered to pay \$1,124,354 in restitution.	October 10, 2017 & November 6, 2017

# Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession and Distressed Property 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.

<b>Sentencing of Scheme Participant in Bank Fraud Conspiracy, Texas</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Aviyah Webb	Participant	Sentenced to 21 months in prison and 3 years of supervised release.	March 29, 2018
<b>5 Indicted 2 Plead Guilty in \$17 Million Real Estate Fraud Scheme Targeting Distressed Homeowners, California</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Michael Henschel	Business Owner	Charged by superseding indictment with conspiracy, mail fraud affecting a financial institution, and bankruptcy fraud.	March 8, 2018
Camerino Islas	Participant	Charged by superseding indictment with conspiracy and mail fraud affecting a financial institution.	March 8, 2018
Claudia Islas	Participant	Charged by superseding indictment with conspiracy and mail fraud affecting a financial institution.	March 8, 2018
Juan Velasquez	Participant	Charged by superseding indictment with conspiracy and mail fraud affecting a financial institution.	March 8, 2018
Eugene Fulmer	Participant	Charged by superseding indictment with conspiracy and mail fraud affecting a financial institution.	March 8, 2018
Lidia Alvarez	Bankruptcy Petition Preparer	Pled guilty to conspiracy to commit bankruptcy fraud.	December 19, 2017
Shara Surabi	Salesperson	Pled guilty to conspiracy to commit bankruptcy fraud.	December 6, 2017

### Indictments in Multi-State Deed Fraud Scheme, Texas

Defendant	Role	Most Recent Action	Date
Arlando Jacobs	Participant	Charged by superseding indictment with conspiracy to commit wire fraud affecting a financial institution, bank fraud, and aggravated identity theft.	February 14, 2018
Clarence Roland	Participant	Charged by superseding indictment with conspiracy to commit wire fraud affecting a financial institution and aggravated identity theft.	February 14, 2018

### Indictment of Real Estate Sales Associate in Bankruptcy Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
David Morgan	Real Estate Sales Associate	Charged by indictment with bankruptcy fraud and falsification of records in a bankruptcy proceeding.	February 8, 2018

### Guilty Plea of Property Management President, Florida

Defendant	Role	Most Recent Action	Date
Michael Rubino	President of Company	Pled guilty to equity skimming and bankruptcy fraud.	January 31, 2018

### 4 Indicted in \$2 Million Mortgage Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Andrew Valles	Participant	Charged by indictment with grand theft, filing false or forged documents in a public office, conspiracy, and identity theft.	January 25, 2018
Jemel Lilly	Participant	Charged by indictment with grand theft, filing false or forged documents in a public office, conspiracy, and identity theft.	January 25, 2018
Mark Bellinger	Participant	Charged by indictment with grand theft, filing false or forged documents in a public office, conspiracy, and identity theft.	January 25, 2018
Arnold Millman	Participant	Charged by indictment with grand theft, filing false or forged documents in a public office, conspiracy, and identity theft.	January 25, 2018

### Sentencing in Deed Fraud Scheme Using Forged Fannie Mae Exec's Signature, Texas

Defendant	Role	Most Recent Action	Date
Arnoldo Antonio Ortiz	Participant	Sentenced to 10 years in prison.	January 11, 2018

### Family Members Found Guilty at Trial and Plead Guilty in \$30 Million Mortgage Relief Scheme, California

Defendant	Role	Most Recent Action	Date
Jamie Matsuba	Participant	Found guilty at trial on charges of conspiracy to commit wire fraud, making false statements to federally insured banks, and identity theft.	December 13, 2017
Thomas Matsuba	Participant	Found guilty at trial on charges of conspiracy to commit wire fraud, making false statements to federally insured banks, and identity theft.	December 13, 2017
Dorothy Matsuba	Participant	Pled guilty to conspiracy to commit wire fraud, wire fraud, making false statements to federally insured banks, and aggravated identity theft.	December 4, 2017

# Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes

Investigations in this category 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.

Sentencing of Co-Conspirator in Multifamily Fraud Scheme, New York			
Defendant	Role	Most Recent Action	Date
Christopher Scott, Sr.	Participant	Sentenced to 5 years of supervised release; later ordered to pay \$766,689 in restitution.	February 14, 2018 & March 2, 2018

# 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.

Sentencings of Non-Profit Owner and Employee in AHP Fraud Scheme, South Carolina			
Defendant	Role	Most Recent Action	Date
Augustina Cabral-Rice	Nonprofit Employee	Sentenced to 3 years of probation and ordered to pay \$316,547 in restitution, joint and several, and \$141,244 in forfeiture.	March 19, 2018
Erick Bradshaw, Sr.	Nonprofit Owner	Sentenced to 5 years of probation and ordered to pay \$316,547 in restitution, joint and several.	December 6, 2017
2 Indicted on Bank Fraud Charges for Loan Scheme, North Carolina			
Defendant	Role	Most Recent Action	Date
Stanley Barron	Participant	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud affecting financial institutions, financial institution fraud, and money laundering conspiracy.	March 13, 2018
Kimberlie Flemings	Participant	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud affecting financial institutions, financial institution fraud, and money laundering conspiracy.	March 13, 2018
Brian Lyles	Participant	Charged by information with conspiracy to commit wire fraud and bank fraud and bank fraud.	February 23, 2018

### Former Settlement Agent Sentenced to 12 Years in Prison, New Jersey

Defendant	Role	Most Recent Action	Date
Mark Andreotti	Former Settlement Agent	Sentenced to 144 months in prison, 5 years of supervised release, and ordered to pay \$2,123,351 in restitution.	March 12, 2018

### Mortgage Company Operator Charged in Mortgage Refinance Ponzi Scheme, Ohio

Defendant	Role	Most Recent Action	Date
Erick Parker	Business Operator	Charged by information with wire fraud.	February 28, 2018

### Indictment in Counterfeit HELOC Check Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Virginia Nelson	Scheme Participant	Charged by indictment with conspiracy to commit bank fraud.	January 30, 2018

### Guilty Plea of Mortgage and Title Company Owner in Lien Fraud Scheme, Virginia

Defendant	Role	Most Recent Action	Date
Roberto Jaramillo	Mortgage and Title Company Owner	Pled guilty to wire fraud.	January 30, 2018

### Sentencing of Settlement Agent for Wire Fraud, Maryland

Defendant	Role	Most Recent Action	Date
Margie Franz	Settlement Agent/ Office Manager	Sentenced to 21 months in prison, 3 years of supervised release, and ordered to pay \$970,964 in restitution.	January 26, 2018

### Guilty Pleas of Bank Executives and Real Estate Investor, Missouri

Defendant	Role	Most Recent Action	Date
Michael Litz	Real Estate Investor	Pled guilty to theft, embezzlement, or misapplication of funds by a bank officer.	January 16, 2018
Timothy Murphy	Loan Officer/ Executive Vice-President	Charged by information and pled guilty to bank fraud.	January 11, 2018
Shaun Hayes	Bank Owner	Pled guilty to bank fraud and theft, embezzlement, or misapplication of funds by a bank officer.	January 3, 2018

### Trial Convictions of Attorney, Former CEO, and Former Chief Loan Officer of Failed Bank, California

Defendant	Role	Most Recent Action	Date
Sean Cutting	Former CEO	Convicted at trial on charges of conspiracy to commit bank fraud, bank fraud, false bank entries and reports, conspiracy to make false statements, misapplication of bank funds, false statements to the FDIC, conspiracy to commit wire fraud, wire fraud, and money laundering.	December 18, 2017
Brian Melland	Former Chief Loan Officer	Convicted at trial on charges of conspiracy to commit bank fraud, bank fraud, false bank entries and reports, conspiracy to make false statements, misapplication of bank funds, false statements to the FDIC, receipt of gifts for procuring loans, conspiracy to commit wire fraud, wire fraud, and money laundering.	December 18, 2017
David Lonich	Attorney	Convicted at trial on charges of conspiracy to commit bank fraud, bank fraud, false bank entries and reports, conspiracy to commit wire fraud, wire fraud, money laundering, and attempted obstruction of justice.	December 18, 2017

### Sentencing of Former Freddie Mac Intern, Virginia

Defendant	Role	Most Recent Action	Date
Allan Richardson	Participant/Former Freddie Mac Intern	Sentenced to 3 months home confinement, 2 years of probation, and ordered to pay a fine of \$4,000 and forfeiture of \$4,000.	December 15, 2017

### Indictment in \$50 Million Bank Fraud Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Mark Gaver	Business Owner	Charged by indictment with bank fraud and money laundering.	December 5, 2017

### Former Bank Executive Indicted for Role in \$15 Million Bank Loan Scheme, Kansas

Defendant	Role	Most Recent Action	Date
Troy Gregory	Former Bank Executive/ Loan Officer	Charged by indictment with conspiracy to commit bank fraud, bank fraud, and false statements.	November 30, 2017

## Sentencing in False Title Insurance Scheme, Missouri

Defendant	Role	Most Recent Action	Date
Nancy Porter	Title Company Owner	Sentenced to 12 months and 1 day in prison, 3 years of supervised release, and ordered to pay \$420,611 in restitution.	November 8, 2017

# 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 Bank System:** 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 2018:** OIG’s FY 2018 covers October 1, 2017, through September 30, 2018.

**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 authorizes 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 amends 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 Controls:** Processes 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 has 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 never 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

		FHLBank	Federal Home Loan Bank
Agency	Federal Housing Finance Agency	FSOC	Financial Stability Oversight Council
ARM	Adjustable-Rate Mortgage	FY 2018	Fiscal Year 2018
Blue Book	<i>Quality Standards for Inspection and Evaluation</i>	GAO	Government Accountability Office
CEO	Chief Executive Officer	GAGAS	Generally Accepted Government Auditing Standards
CIGFO	Council of Inspectors General on Financial Oversight	GSE	Government-Sponsored Enterprise
CIGIE	Council of the Inspectors General on Integrity and Efficiency	HELOC	Home Equity Line of Credit
DER	Division of Enterprise Regulation	HERA	Housing and Economic Recovery Act of 2008
DHMG	Division of Housing Mission and Goals	HUD-OIG	Department of Housing and Urban Development Office of Inspector General
DOC	Division of Conservatorship	IG	Inspector General
DOJ	Department of Justice	IRS-CI	Internal Revenue Service-Criminal Investigation
EIC	Examiner-in-Charge	IT	Information Technology
Enterprises	Fannie Mae and Freddie Mac	LTV	Loan-to-Value
FBI	Federal Bureau of Investigation	MBS	Mortgage-Backed Securities
FDIC	Federal Deposit Insurance Corporation	MRA	Matter Requiring Attention
FHFA	Federal Housing Finance Agency	MSR	Mortgage Servicing Right

NGC	Nominating and Corporate Governance Committee of the Fannie Mae Board of Directors	TCRs Treasury	Tips, Complaints, or Referrals Department of the Treasury
NIST	National Institute of Standards and Technology		
OA	Office of Audits		
OCom	Office of Compliance and Special Projects		
OE	Office of Evaluations		
OHRP	Office of Housing and Regulatory Policy		
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		
RMBS	Residential Mortgage-Backed Securities		
ROE	Report of Examination		
SA	Special Agent		
SEO	Senior Executive Officer		
SVB	Sonoma Valley Bank		

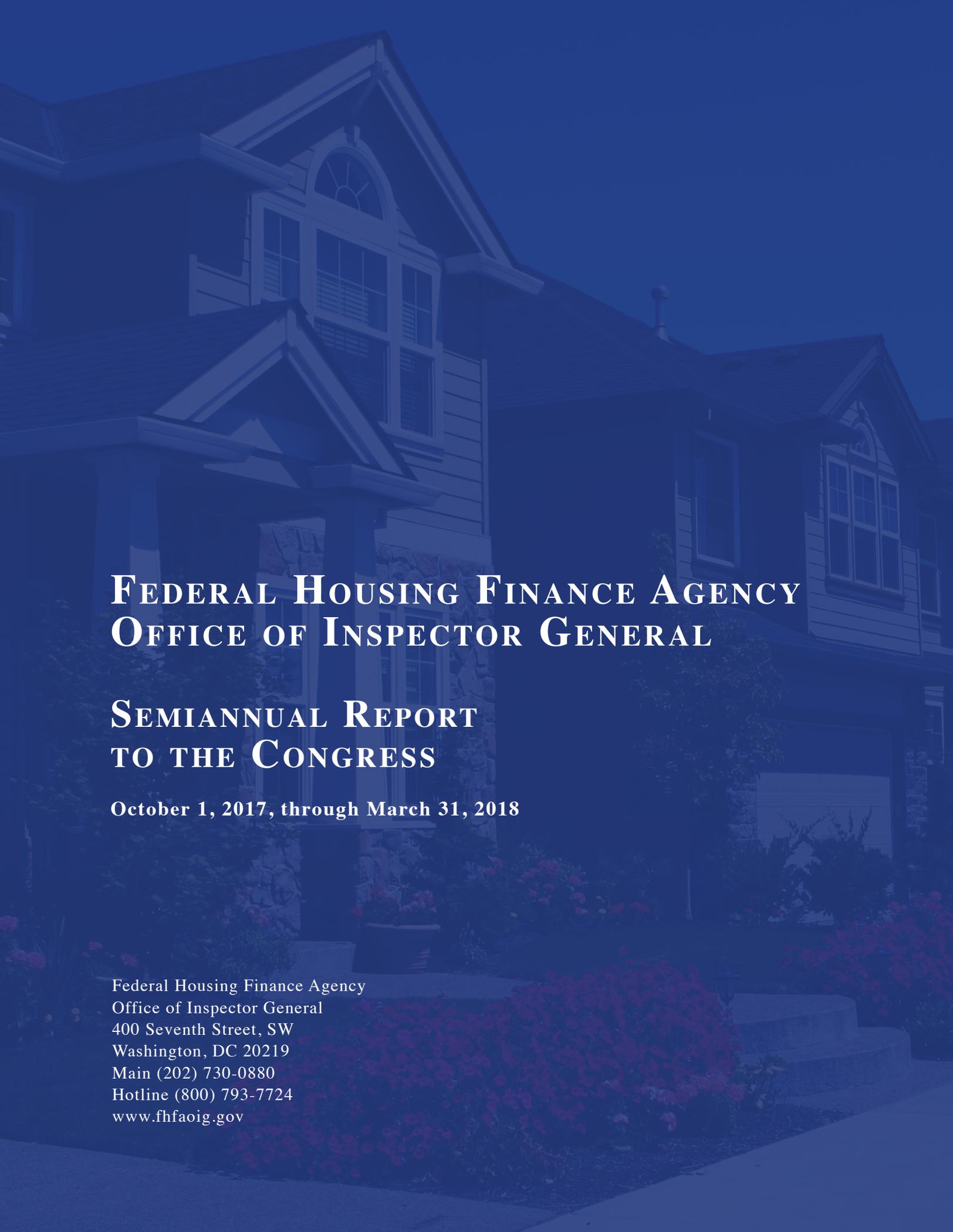
# Appendix L: Endnotes

---

<sup>1</sup> 12 U.S.C. § 4617(b)(2)(A), (B), (D) (2016). Accessed: March 16, 2018, at [Title 12, Chapter 46, Subchapter II, Section 4617](#)

<sup>2</sup> FHFA Suspended Counterparty Program, 12 C.F.R. pt. 1227 (2018). Accessed: March 16, 2018, at [Title 12, Volume 10, Part 1227](#)





# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2017, through March 31, 2018

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