Audit and Evaluation Plan

Office of Inspector General
Federal Housing Finance Agency
April 2014

Overview

On July 30, 2008, the Federal Housing Finance Agency (FHFA or Agency) was established by the Housing and Economic Recovery Act of 2008 (HERA).[1] Specifically, HERA abolished two existing Federal agencies, the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board, and in their place created FHFA to regulate the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the Enterprises), the Federal Home Loan Banks (FHLBanks), and the FHLBanks' fiscal agent, the Office of Finance (collectively, the Government Sponsored Enterprises or GSEs).

FHFA's mission is to: provide effective supervision, regulation, and oversight of the GSEs; promote their safety and soundness; support housing finance, affordable housing, and community development goals; and facilitate a stable and liquid mortgage market.

The Enterprises purchase mortgages from lenders and either package them into mortgage-backed securities (MBS) that are sold to investors or hold them in their portfolios. By doing so, the Enterprises' actions promote liquidity in the housing finance system. The FHLBank System issues debt and each of the 12 FHLBanks makes secured loans known as advances to their members, such as banks or thrifts. Their members can use the advance proceeds to originate additional mortgages.

Since September 2008, FHFA also has been the conservator of the Enterprises. FHFA placed the Enterprises into conservatorships out of concern that their deteriorating financial conditions would destabilize the financial markets. At that time, the U.S. Department of the Treasury (Treasury) agreed to provide them with substantial financial support. As of March 2014, the Enterprises under their conservatorships have received $187.5 billion in Treasury support pursuant to senior preferred stock purchase agreements with each of them. Further, in recent years several FHLBanks have faced significant financial and operational challenges.

FHFA Office of Inspector General

The FHFA Office of Inspector General (FHFA-OIG) was established by Section 1105 of HERA, which amended the Inspector General Act of 1978.[2] The mission of FHFA-OIG is to: promote the economy, efficiency, and effectiveness of FHFA programs; prevent and detect fraud, waste, and abuse in FHFA programs; and seek sanctions against, and civil and criminal prosecutions of, those responsible for such fraud, waste, and abuse. FHFA-OIG

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1 Public Law No. 110-289

2 Public Law No. 95-452

provides independent and objective reporting to FHFA's Acting Director, Congress, and the American people through audits, evaluations, surveys, and investigations.

To guide FHFA-OIG, the Inspector General has prioritized the development of this comprehensive Audit and Evaluation Plan. FHFA-OIG does not publicly disclose its investigative plan due to the sensitive nature of its investigations.

FHFA-OIG Office of Audits

The Office of Audits provides audit and related services covering the programs and operations of FHFA. Through its performance audits and attestation engagements, the Office of Audits seeks to promote economy, efficiency, and effectiveness in the administration of FHFA programs; detect and deter fraud, waste, and abuse in FHFA activities and operations; and ensure compliance with applicable laws and regulations.

Under the Inspector General Act, inspectors general are required to comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. These standards, referred to as Generally Accepted Government Auditing Standards, are prescribed in the *Government Auditing Standards*, commonly referred to as the "Yellow Book." The Office of Audits performs its audits and attestation engagements in accordance with the Yellow Book.

FHFA-OIG Office of Evaluations

The Office of Evaluations reviews, studies, and analyzes FHFA programmatic and operational activities and provides independent and objective analyses to FHFA. It also assists FHFA by developing recommendations designed to resolve significant deficiencies in the effectiveness or efficiency of FHFA programs and operations and preventing fraud, waste, and abuse.

The Inspector General Reform Act of 2008[3] requires inspectors general to adhere to professional standards developed by the Council of the Inspectors General on Integrity and Efficiency. Evaluation standards are prescribed in its *Quality Standards for Inspection and Evaluation*, commonly referred to as the "Blue Book." The Office of Evaluations performs its evaluations in accordance with the Blue Book.

[3] Public Law No. 110-409

FHFA-OIG Audit and Evaluation Planning Processes

In order to meet the requirements of the Inspector General Act of 1978 (as amended), the Yellow Book, and the Blue Book, FHFA-OIG has established an ongoing and dynamic planning process[4] focusing on the areas of greatest risk to FHFA and the GSEs. FHFA-OIG's Audit and Evaluation Plan[5] enables it to address these risks and ensure transparency and accountability in the Agency's programs and operations, including the Agency's regulation of the GSEs. FHFA-OIG identifies subjects that should be surveyed, audited, or evaluated through a variety of means, including discussions with FHFA and GSE executives, the public, Congress, and other government officials; reviews of relevant reports and documents prepared by FHFA and external parties; risk assessments performed in key areas related to FHFA's mission; and matters referred to FHFA-OIG through its Hotline.

Key Areas of FHFA-OIG Audit and Evaluation Focus

FHFA-OIG's Audit and Evaluation Plan is organized around three aspects of FHFA's and the GSEs' operations that also reflect FHFA-OIG's priorities as follows:

- First, it prioritizes assessments of FHFA's management of the Enterprises' conservatorships as well as the Agency's general oversight of them. FHFA-OIG prioritizes Enterprise issues given the magnitude of Treasury's investments in them to date, continuing concerns about the effectiveness of their risk management, their dominant role in the housing finance system, and uncertainty about their future structures.

- Second, FHFA-OIG prioritizes allocating sufficient resources to assess FHFA's oversight of the FHLBanks. The FHLBank System is important, among other reasons, because it has more than $700 billion in debt outstanding that is potentially taxpayer guaranteed and in recent years has faced a number of challenges. In particular, several FHLBanks have faced substantial losses due to risky investments during the housing boom.

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[4] The *Quality Standards for Federal Offices of Inspector General*, issued in January 2011, and adopted by the Council of Inspectors General on Integrity and Efficiency, addresses the importance of conducting an annual evaluation planning process to identify and prioritize potential work.

[5] This plan is dynamic. It is neither final nor all-inclusive. It does not include, for example, audits or evaluations that FHFA-OIG may undertake pursuant to requests from FHFA, Congress, and other stakeholders, or situations to which FHFA-OIG's attention may be drawn as a result of its ongoing activities. FHFA-OIG will work closely with the Government Accountability Office and other inspectors general to ensure that its planning process continues to include risk-based coverage of government-wide programs.

- Finally, FHFA-OIG prioritizes assessments of FHFA's management of its internal operations and their effectiveness.

FHFA-OIG is constantly reassessing its priorities based upon risk in an effort to ensure that its limited resources are put to their optimal use. This Audit and Evaluation Plan may change in accordance with these reassessments.

FHFA-OIG Audit and Evaluation Plan

Within the three key areas of focus mentioned above, FHFA-OIG will review several broad subject areas. The broad areas in which FHFA-OIG will concentrate its efforts include:

- **Conservatorship Management** – Assessments of the process by which FHFA approves actions related to the Enterprises' conservatorships. These efforts also include the methods employed by FHFA to balance its multiple roles and missions and to identify and manage potential operational conflicts associated with them. Further, these assessments include FHFA's efforts to conserve and preserve Enterprise assets.

- **Credit, Interest Rate, and Operational Risk Management** – Assessments of FHFA's oversight of the credit, interest rate, and operational risk management processes and controls at the GSEs. Credit risk management comprises credit loss mitigation activities by the GSEs, including underwriting, mortgage repurchase practices, and loss mitigation programs such as the implementation of the Home Affordable Refinance Program and the Home Affordable Mortgage Program. Interest rate risk management includes the processes by which the GSEs manage and mitigate the inherent risks of their business operations that are due to the fluctuation of interest rates. These efforts include the use of derivatives investments for hedging purposes. Operational risk management consists of the controls used by the GSEs to reduce the potential of losses due to inadequate or failed internal processes, people, or systems, and fraudulent, wasteful, or abusive activities in their programs or operations.

- **Housing Mission and Goals** – Assessments of FHFA's oversight of its regulated entities' efforts to ensure the liquidity of the secondary mortgage market, meet housing goals set under HERA, and provide assistance to homeowners under the Emergency Economic Stabilization Act of 2008.[6]

[6] Public Law No. 110-343

- **Mortgage Servicing and Real Estate Owned (REO)** – Assessments of FHFA's oversight of the Enterprises' controls used to manage effectively their relationships with contracted servicers, which are responsible on behalf of the Enterprises for collecting mortgage payments, maintaining loan records, administering escrow accounts for taxes, and determining when to modify or foreclose upon delinquent loans; and, assessments of FHFA's oversight of the Enterprises' controls over their operations involving foreclosed properties.

FHFA-OIG also expects to continue to work with law enforcement partners, whistleblowers, and other parties to detect and eliminate fraud, waste, and abuse.

Conservatorship Management and Enterprise Oversight Issues

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Conservatorship Management

- **FHFA's Oversight of the Common Enterprise Securitization Platform:** In 2012, FHFA, acting under its conservatorship authority, directed the Enterprises to develop the Common Securitization Platform. FHFA concluded that developing a common platform would be both more efficient and less costly than each Enterprise separately pursuing upgrades to their proprietary back office systems by which they securitize mortgages and create mortgage-backed securities. This report will serve as a primer on the Common Securitization Platform, its current status, and potential challenges to its development and implementation.

- **FHFA's Oversight of the Enterprises' Liquidation of Their Retained Portfolios:** The senior preferred stock purchase agreements require reductions in the Enterprises' retained portfolios; consequently, the Enterprises have been disposing of some of the more liquid assets in those portfolios. As this process continues, the assets remaining in the portfolios are increasingly less liquid. In many cases, these illiquid assets may be carried on the Enterprises' books at a value for which they could not be sold. This study will consider whether the Enterprises may be required to recognize the actual value of these assets, and thus take significant losses.

- **FHFA's Oversight of Freddie Mac's Market-Adjusted Pricing Program:** Fannie Mae securities have generally traded for a higher price than similar Freddie Mac securities. In the past, Freddie Mac took measures to adjust the pricing of its own securities in order to compensate investors for the spread between Freddie Mac securities and comparable Fannie Mae securities. This practice, known as "Market-Adjusted Pricing," involves having Freddie Mac pay investors a premium to encourage them to purchase Freddie Mac securities. FHFA-OIG will determine whether Freddie Mac still has this program, and if so, evaluate how much this program costs Freddie Mac (and, by extension, taxpayers), and whether the expenditures are warranted to promote competition between two businesses in conservatorship.

- **Impact of the Federal Reserve Board's Quantitative Easing Program on Freddie Mac's and Fannie Mae's Financial Performance:** At present, the Federal Reserve Board (the Fed) is purchasing most of the securities issued by the Enterprises. This study will assess the impact of the Fed's actions on the Enterprises and the housing market, as well as the likely results of any reduction by the Fed in its purchases.

- **FHFA's Oversight of the Enterprises' Monitoring of Compliance with Master Custodial Agreements:** An entity selling mortgages to the Enterprises must ensure that the notes, assignments, and related documents are delivered according to Enterprise guidance. A seller/servicer's designated document custodian must be approved by the Enterprises, and the custodian certifies mortgage notes and assignments delivered by a seller/servicer, as well as holds them in trust for the Enterprises. This audit will assess FHFA's oversight of the Enterprises' monitoring of document custodian responsibilities for loans delivered to the Enterprises.

Credit, Interest Rate, and Operational Risk Management

- **FHFA's Oversight of Enterprise Credit Risk Sharing Transactions:** Risk sharing is a key scorecard goal, and the Enterprises have engaged in multiple risk sharing transactions. This evaluation will assess the cost of the program as contrasted with the intended benefits.

- **FHFA's Oversight of the Enterprises' Risk Sharing Agreements:** The Enterprises have completed transactions that share the risk of loss with private capital. Proceeds and losses are to be allocated in accordance with the risk-sharing agreement provisions. This audit will assess FHFA's controls over third-party compliance with risk sharing agreements, including the allocation of costs incurred and the distribution of proceeds received.

- **FHFA's Oversight of Fannie Mae's Mortgage Insurance Claims Process:** Mortgage insurance is a credit enhancement used by Fannie Mae to manage single-family mortgage credit risk. When a mortgage falls into default, Fannie Mae is entitled to file a claim with the mortgage insurer. This audit will assess FHFA's oversight of Fannie Mae's policies, procedures, and practices with respect to the processing of mortgage insurance claims.

- **FHFA's Oversight of the Enterprises' Controls over Mortgage Insurance Cancellations:** The Enterprises require mortgage insurance on loans until certain conditions, such as 20% equity, are met. The borrower or the lender can then cancel the mortgage insurance. This audit will assess FHFA's oversight of the Enterprises' controls over mortgage insurance cancellations, including cancellations due to loan modifications and borrower initiated action based on property value.

- **FHFA's Oversight of the Enterprises' Controls over Sellers' Adherence to Mortgage Underwriting Standards:** The Enterprises purchase loans from sellers, such as financial institutions, in order to increase liquidity in the mortgage market. Seller guidance is issued by the Enterprises, and compliance with the Enterprises' guidance is important to the management of related risks. Moreover, the Enterprises may hold their sellers financially responsible for losses resulting from noncompliance. This audit will assess FHFA's oversight of the Enterprises' monitoring and management of mortgage sellers' compliance with contractual obligations related to applicable underwriting standards.

- **Enhancements to Underwriting Quality Controls:** In September 2012, FHFA announced changes to the Enterprises' representation and warranty framework that are intended to increase the quality of the loans they purchase, as well as provide for more expeditious resolutions of repurchase requests. This audit will assess FHFA's oversight of the Enterprises' enhancements to their quality control and enforcement practices as part of the implementation of the revised representation and warranty framework.

- **FHFA's Oversight of the Enterprises' Controls over Lender Quality Control Processes**: The Enterprises perform quality control on a sample of loans they purchase to identify instances where the loan's quality or related documentation on that loan does not comport with the seller's representations and warranties. This audit will assess FHFA's oversight of the Enterprises' controls regarding lender quality control activities, including quality control program requirements, plans, and standards and measures used in the quality control process.

- **FHFA's Oversight of Fannie Mae's Controls over Seller Collection and Reporting of Borrower Income Data**: The Enterprises acquire loans from sellers that are contractually required to have underwriting controls in place. Deficiencies in their underwriting controls may cause loan sellers to fail to detect misrepresentations by borrowers as to their income. This, in turn, may cause loan sellers to provide the Enterprises with non-compliant loans, and such loans may cause the Enterprises to experience losses. This audit will assess FHFA's oversight of the Enterprises' controls over their loan sellers' verification of income during the single-family loan underwriting process. It will include tests of selected sellers' income verification practices.

- **FHFA's Oversight of the Enterprises' Use of the Uniform Loan Delivery Dataset Prior to Purchasing Loans**: FHFA has directed the Enterprises to develop a Uniform Mortgage Data Portal, consisting of several modules that assess the accuracy and quality of loan data prior to Enterprise purchase of those loans. The Uniform Loan Delivery Dataset defines the data that is required at loan delivery based on loan type, loan feature, or other business requirements. This audit will assess FHFA's oversight of the Enterprises' use of loan-level information provided in the Uniform Loan Delivery Dataset prior to purchasing those loans.

- **FHFA's Use of "Ongoing Monitoring" in the Examination Process:** FHFA's ongoing monitoring activities constitute the majority of its annual work at the Enterprises even though targeted examinations often receive more attention. This evaluation will examine the concept of "ongoing monitoring" and evaluate its effectiveness.

- **FHFA's Oversight of Non-bank Sellers:** The volume of Enterprise mortgages that are sold and/or serviced by non-bank institutions has increased over the past few years. This audit will assess FHFA's oversight of the Enterprises' controls for approval of non-bank sellers and the subsequent monitoring of non-bank sellers' operational and financial performance.

- **FHFA's Oversight of Fannie Mae's and Freddie Mac's Non-bank Mortgage Sellers' Counterparty Risk Exposures:** Recently, the Enterprises have purchased mortgages from entities such as independent mortgage sellers. These entities are not the Enterprises' traditional counterparties; accordingly, the transactions involve credit risks to the Enterprises that need to be managed effectively. This study will assess any counterparty risk to the Enterprises as a result of this new business.

- **FHFA's Oversight of the Enterprises' Settlements:** The Enterprises have settled with some of their seller/servicers on matters of noncompliance with their representation and warranty framework. FHFA established a settlement policy and guidance for the Enterprises that also describes FHFA's role regarding settlements. This audit will assess FHFA's oversight of the Enterprises' settlements, including compliance with *FHFA Settlement Policy* and *FHFA Settlement Procedural Guide* for claims involving mortgage repurchases and mortgage insurance.

- **FHFA's Oversight of the Enterprises' Controls for Repurchase Relief Under the Representation and Warranty Framework:** FHFA established a new representation and warranty framework for the Enterprises effective for loans settled after January 1, 2013. As part of this framework, sellers obtain relief from repurchases if loans perform for 36 months. This audit will assess FHFA's analysis for determining the parameters of the repurchase relief under the new representation and warranty framework.

- **FHFA's Oversight of the Enterprises' Efforts to Address Fraud and Misconduct:** Each Enterprise maintains a unit that investigates allegations of insider fraud and violations of the Enterprise's code of conduct, including allegations against officers of the companies. It is critical that processes for investigating these allegations be robust, and that the Enterprises' boards of directors and executives take effective action to address identified fraud and noncompliance with the codes of conduct. This evaluation will assess the effectiveness of the Enterprises' fraud programs.

- **FHFA's Oversight of the Freddie Mac Financial Instrument Fraud Unit:** The Financial Instrument Fraud Unit exists at Freddie Mac; however, it does not appear that Fannie Mae maintains a comparable unit. This study will determine the purpose of creating the unit, the function it performs, and its effectiveness.

- **FHFA's Oversight of Enterprise Data Integrity and Timeliness:** The Enterprises rely on servicers to provide loan performance data and related information necessary to manage risk and prepare public disclosures and financial statements, among other things. However, the controls around the collection and analysis of these data may not be adequate; indeed, unresolved concerns about the quality and comprehensiveness of the data may have hampered the Enterprises' ability to comply with FHFA's expectations on asset classification. This study will assess the quality of the controls around collection and analysis of the data in question.

- **FHFA's Oversight of the Enterprises' Vendor Selection and Contract Administration Practices:** The Enterprises use vendors to execute a variety of functions. Proper oversight is required to ensure fair vendor selection and receipt of vendor services consistent with established contracts. This audit will assess FHFA's oversight of the Enterprises' controls for selecting vendors and administering vendor contracts.

- **FHFA's Oversight of Freddie Mac's Information Technology Investment Management Process:** Information technology is key to supporting the various Enterprise functions. Investments are required to maintain existing systems and build or procure new information technology. This audit will assess FHFA's oversight of Freddie Mac's processes that support budgeting for information technology investments and the monitoring of those investments once funded.

Housing Mission and Goals

- **FHFA's Oversight of Redefaults under the Home Affordable Mortgage Program:** There is a high redefault rate by homeowners who have received assistance under the Home Affordable Modification Program (HAMP); in other words, notwithstanding modifications to their mortgages resulting in lower monthly payments, many homeowners who benefitted from HAMP were unable to maintain their new lower payments. This study will consider whether the benefits accruing from the program justify the costs of the mortgage modifications.

- **FHFA's Oversight of the Enterprises' Home Affordability/Access to Housing Program Performance:** The Enterprises are subject to affordable housing goals under HERA and FHFA regulations. Both Enterprises also offer programs to ensure home affordability and access to housing. This audit will assess FHFA's oversight of the Enterprises' compliance with home affordability goals and accessibility program objectives.

Mortgage Servicing and Real Estate Owned

- **FHFA's Oversight of the Enterprises' Implementation of Recent Consent Orders and Settlement Agreements:** In April 2011, 14 servicers, including the Enterprises' five largest servicers, entered into consent orders with federal regulators under which the servicers are required to implement major reforms in their loan servicing operations and foreclosure practices. Further, in March 2012, the Federal Government and others reached a

$26 billion settlement agreement with the nation's five largest mortgage servicers under which the servicers must institute substantial reforms to their loan servicing and foreclosure practices. The combined effects of the consent orders and the settlement agreement on mortgage servicing are comprehensive: their terms extend to third party vendors that provide default management or foreclosure services; and they render foreclosure a last resort by requiring servicers to determine the feasibility of other loss mitigation options before pursuing foreclosure. This audit will assess FHFA's oversight of revisions to the Enterprises' controls over their servicers in order to ensure servicing is performed in accordance with the consent orders and settlement agreements.

- **FHFA's Oversight of the Enterprises' Controls over Information Used to Monitor Servicer Performance:** Servicers are paid fees for performing certain functions on behalf of both Enterprises, and the Enterprises have established controls for reviewing servicer performance and obtaining remedial actions as required. In order for such performance reviews to be effective, the servicers must provide the Enterprises with current, accurate, and complete financial and operational information. This audit will assess FHFA's oversight of the Enterprises' controls for determining the reliability of servicer financial and operational information, and it will include tests of selected servicer information to determine its reliability.

- **FHFA's Oversight of Enterprise Mortgage Servicing Transfers:** The mortgage industry is in the midst of a significant shift in the ownership of mortgage servicing rights and a corresponding concentration in the number of companies servicing mortgages. This evaluation will assess potential adverse effects on borrowers; Enterprise contractual relationships with specialty subservicers; valuation of mortgage servicing rights; and the adequacy of controls around the transfers. FHFA-OIG will also audit the related costs and benefits supporting transfer approval decisions.

- **FHFA's Oversight of the Enterprises' Controls over Servicer Reimbursements for Attorney Costs:** The Enterprises are heavily dependent on mortgage servicers that collect mortgage payments, deal with homeowners, and, when necessary, handle foreclosures. This study will assess the Enterprises' effectiveness in managing payments to servicers for attorney fees and costs incurred in connection with foreclosure actions.

- **FHFA's Oversight of the Enterprises' Payments to Servicers for Delinquency Expenses:** Both Enterprises have systems for managing reimbursement payments to servicers for expenses incurred in connection with the management of delinquent mortgages. FHFA-OIG issued a study assessing the effectiveness of Fannie Mae's system for managing such expenses; this evaluation will provide a similar study of Freddie Mac's operations.

- **FHFA's Oversight of the Short Sales Valuation Process:** Short sales are an alternative to foreclosure under which the Enterprises may experience lower losses and borrowers avoid foreclosure. This audit will assess FHFA's oversight of the manner in which the Enterprises and certain of their counterparties make short sale pricing determinations. This audit will include tests of selected counterparty actions involving short sale transactions.

- **FHFA's Oversight of the Enterprises' Controls over Servicer Management of Insurance Claims:** Homeowners are subject to a variety of insurance coverage requirements, and the Enterprises have requirements for servicers regarding these claims. This audit will assess FHFA's oversight of the Enterprises' controls over the submission of insurance claims under hazard, mortgage, and flood insurance policies and receipt of insurance proceeds.

- **Lender-Placed Insurance and FHFA's Steps to Conserve Enterprise Assets:** When a homeowner fails to maintain hazard insurance as required by the Enterprises, servicers are authorized to contract with insurance providers that track coverage and, when it lapses, initiate new coverage called "Lender-Placed Insurance" (LPI). Initially, the LPI premiums are passed on to homeowners; in the event the homeowner defaults, however, the costs of LPI may be borne by the Enterprises. LPI is significantly more expensive than regular hazard insurance; indeed, some state insurance commissioners have determined that rates are excessive. Moreover, there have been several lawsuits against servicers and LPI providers, alleging that LPI premiums were sufficiently excessive to constitute a breach of the servicers' and LPI providers' contractual obligations. This study will consider the Agency's oversight of matters relating to LPI, and the extent to which the costs of LPI may have harmed the Enterprises.

- **FHFA's Oversight of the Enterprises' Controls over the Qualification and Assignment of REO Brokers:** The Enterprises still have a large inventory of REO properties. They use a network of real estate brokers to market and sell such properties. This audit will assess FHFA's oversight of the Enterprises' controls over how they qualify and assign real estate brokers to sell REO properties.

FHLBank System Oversight Issues

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Credit Risk Management

- **Federal Home Loan Banks' Mortgage Partnership Finance Xtra program:** Under the Mortgage Partnership Finance (MPF) Xtra program, FHLBank members sell fixed rate, conforming loans to their FHLBanks. The FHLBanks aggregate these loans and sell them to Fannie Mae. As of August 2013, FHFA has authorized seven FHLBanks to offer MPF Xtra. This evaluation will examine FHFA's oversight of the MPF Xtra program and the FHLBanks' and Fannie Mae's participation in it.

Housing Mission and Goals

- **FHFA's Oversight of the FHLBanks' Mission Asset Planning Process:** FHFA's then-Acting Director observed an increase in non-core mission investments on the part of FHLBanks that coincided with a decline in their advance business, as well as their housing finance and community development activity. This audit will assess FHFA's oversight of the FHLBanks' mission asset planning process.

- **FHFA's Oversight of the FHLBanks' Mission Limitations:** The FHLBank System is intended to support residential mortgage lending and related community investment through its member financial institutions. This evaluation will assess the rules that define the housing mission and how FHFA enforces those rules.

- **FHFA's Oversight of the Chicago FHLBank's Relationship with Ginnie Mae:** The Chicago FHLBank was recently approved as an issuer of Ginnie Mae securities. FHFA-OIG will evaluate the risks, if any, to the Chicago FHLBank and the FHLBank System, as well as their suitability for this new line of business.

FHFA Internal Operations

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- **Fiscal Year 2014 Audit of FHFA's Information Security Program Required by the Federal Information Security Management Act:** The Federal Information Security Management Act (FISMA) requires inspectors general annually to review information security programs and practices to help ensure that the confidentiality, integrity, and availability of federal information is safeguarded. This audit will assess FHFA's information security program and practices to determine whether it meets the security responsibilities outlined in FISMA.

- **Fiscal Year 2014 Audit of FHFA-OIG's Information Security Program:** FISMA requires FHFA to undergo an annual independent evaluation of its information security program, as well as an assessment of its compliance with FISMA requirements. FHFA-OIG elected to have an evaluation performed of its information security program since its program is independent of FHFA's program. This audit will assess FHFA-OIG's information security program and practices, including FHFA-OIG's compliance with FISMA and related information security policies, procedures, standards, and guidelines.

- **FHFA's Controls to Detect and Prevent Improper Payments**: Statutory provisions established by the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the IPERA Improvement Act of 2012, require inspectors general to determine whether their agency is in compliance with the statute each fiscal year and report such findings. This audit will assess FHFA's compliance with the applicable provisions of these statutory requirements.

- **FHFA's Privacy Program and Implementation:** Section 522 of the Consolidated Appropriations Act of 2005 requires inspectors general to perform periodic privacy audits to help ensure that personally identifiable information is safeguarded. This audit will assess FHFA's compliance with the Act's requirements for privacy and data protection procedures and reporting on its use of personally identifiable information.

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

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FRAUD, WASTE, OR ABUSE

in FHFA Programs or Operations
(including mortgage fraud referrals involving FHFA, Fannie Mae, Freddie Mac, and Federal Home Loan Banks)

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