

Federal Housing Finance Agency
Office of Inspector General



Compliance Review of FHFA's Implementation of its Consumer Communications Procedures



COM-2016-005

July 14, 2016

Executive Summary

The Federal Housing Finance Agency (FHFA or the Agency) Office of Inspector General (OIG) issued an audit report on June 21, 2011, entitled *Audit of the Federal Housing Finance Agency's Consumer Complaints Process* (2011 Audit Report). In that report, we found that FHFA was unprepared to manage and administer the rising volume of consumer complaints (hereafter referred to in this report as “communications” pursuant to current Agency terminology) it received as a result of the financial crisis. Specifically, we found that the Agency had not established a centralized system for tracking the consumer communications it received or established policies and procedures for processing such communications. Further, we established that the Agency did not monitor the status of communications it referred to Fannie Mae and Freddie Mac (collectively, the Enterprises) for follow-up action and resolution. Finally, we showed that FHFA was unable to ensure that consumer communications were resolved on a timely basis.

Based on those findings, we recommended, among other things, that the Agency establish a centralized system to track communications, policies and procedures for responding to communications on a timely and accurate basis, and processes for monitoring the status of communications that it referred to the Enterprises for follow-up action and resolution.

FHFA agreed with our recommendation. On September 26, 2012, the Agency finalized its Consumer Communications Procedures (Procedures), which established an electronic system to track communications and criteria and requirements that apply to the Agency's receipt and processing of them. Per the Procedures, FHFA must respond to consumer communications within 30 days of their receipt, provide consistent responses to consumers, and monitor the status of the Enterprises' efforts to resolve communications that the Agency refers to them. We closed our recommendation on September 28, 2012, based on our determination that the Procedures were sufficiently responsive.

On February 22, 2016, we initiated this compliance review to test FHFA's implementation of the key procedure requirements set forth above during the review period of January 1, 2014, through December 31, 2015. To do so, we obtained FHFA's data for the approximately 1,800 consumer communications that it received during our review period. We sought to determine whether the Agency responded to the communications it received within 30 days as required by the Procedures. We found that FHFA met this requirement 97% of the time for the approximately 1,800 consumer communications, and its average response time was three days.



COM-2016-005

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Next, we reviewed FHFA's files to obtain a random, representative sample of the total population of consumer communications and other Agency documentation to determine if FHFA: (1) complied with the Procedures' requirements to provide consistent information when responding to consumers, and (2) followed up on the status of referrals to the Enterprises. Based upon our testing, we determined that FHFA almost always complied with these requirements; the few exceptions we found are explained in this report. Based on our compliance testing, we conclude that FHFA successfully implemented the Procedures, and that the Agency's adoption of our recommendation strengthened its capacity to manage and administer consumer communications.

This compliance review was led by Alisa Davis, Senior Policy Advisor, and Wesley M. Philips, Senior Policy Advisor, with assistance from Jon Anders, Program Analyst, Omolola Anderson, Senior Statistician, and Andrew Geger, Jr., Senior Auditor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY2

ABBREVIATIONS5

BACKGROUND6

COMPLIANCE REVIEW RESULTS.....8

 FHFA Responded to 97% of Consumer Communications Within 30 Days8

 FHFA’s Consumer Communication Responses Were Consistent with Agency
 Guidance8

 The Enterprises and FHFA Generally Complied with CC Procedure Requirements
 Regarding Referred Consumer Communications9

 Enterprises Prepared and Submitted to FHFA Weekly Status Reports on
 Referrals9

 FHFA Held Monthly Status Referral Meetings with the Enterprises9

CONCLUSION.....11

OBJECTIVE, SCOPE, AND METHODOLOGY12

ADDITIONAL INFORMATION AND COPIES14

ABBREVIATIONS

2011 Audit Report	<i>Audit of the Federal Housing Finance Agency’s Consumer Complaints Process</i>
DER	Division of Enterprise Regulation
DOC	Division of Conservatorship
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
HARP	Home Affordable Refinance Program
OIG	Federal Housing Finance Agency Office of Inspector General
Procedures	Consumer Communications Procedures

BACKGROUND.....

As a result of the financial crisis, millions of borrowers defaulted on their mortgages that were owned or securitized by the Enterprises; some fell into foreclosure. Many of these borrowers submitted complaints or made inquiries to FHFA concerning their dealings with the Enterprises and with mortgage servicers. In our 2011 Audit Report, we found that FHFA was unprepared to manage and administer the rising volume of consumer communications received in the wake of the financial crisis. It lacked policies and procedures for processing consumer communications and a centralized system for tracking the communications it received. We also found that FHFA did not monitor the communications it forwarded to the Enterprises. As a consequence, FHFA lacked a comprehensive record of its consumer communications and could not determine whether these communications had been resolved in a timely manner.

We recommended that FHFA design and implement written policies, procedures, and controls to, among other things:¹

- Establish a centralized communications tracking system;
- Provide timely and accurate responses to communications;
- Refer communications to the Enterprises, as appropriate; and
- Follow up on referred communications to ensure proper resolution.

FHFA agreed with our recommendations. On September 26, 2012, the Agency finalized the Procedures, which required FHFA to use an electronic system to track consumer communications. The Procedures also established criteria and requirements that apply to the Agency's management and administration of consumer communications. Specifically, the Procedures and their implementing guidance require FHFA staff members, the Enterprises, and the Federal Home Loan Banks, among others, to process such communications in the following manner:

- **Respond Timely.** FHFA employees must respond to consumer communications within 30 days of receipt by the Agency.
- **Provide Consistent Information to Consumers.** FHFA employees must adhere to written guidance in responding to consumer communications. Specifically, they must

¹ In the same report, OIG also recommended that FHFA assess resources allocated to consumer complaints and perform a one-time review of unresolved consumer complaints alleging fraud to ensure proper resolution. These recommendations were outside the scope of this compliance review.

provide consistent responses to consumers depending upon the topics raised in their communications. For example, responses to communications involving mortgage refinancing must include a description of the Home Affordable Refinance Program's (HARP) eligibility criteria and provide consumers a link to a website containing more information about the program.² Pursuant to the guidance, FHFA employees must also inform consumers, where applicable, that their communications were forwarded to the Enterprises, Federal Home Loan Banks, or the OIG Hotline (in the case of alleged fraud) for further review and possible resolution.

- **Monitor the Status of Referrals to the Enterprises.** The Enterprises must submit weekly reports to FHFA detailing the status of their efforts to resolve consumer communications referred to them by the Agency.³ The Enterprises' actions to resolve referrals range from contacting a servicer and reviewing the consumer's account history, to researching Enterprise policy for handling a particular matter.

The Procedures also require FHFA Division of Conservatorship (DOC) staff, which had lead responsibility for implementing the Procedures during our review period, as well as Division of Enterprise Regulation (DER) staff to attend the monthly status meetings with the Enterprises concerning the latter's efforts to resolve consumer communications referred to them for action.⁴

We closed the recommendation on September 28, 2012, after we reviewed the Procedures and their implementing guidance and determined that they were responsive to the recommendation in our 2011 Audit Report.

² FHFA and the U.S. Department of the Treasury introduced HARP in early 2009 as part of the Making Home Affordable program. HARP provides borrowers, who may not otherwise qualify for refinancing because of declining home values or reduced access to mortgage insurance, the ability to refinance their mortgages into a lower interest rate and/or more stable mortgage product.

³ FHFA requires the weekly reports of the Enterprises, and not the Federal Home Loan Banks, because the Enterprises are in conservatorship.

⁴ The Office of Congressional Affairs and Communications was responsible for consumer communications when we closed the recommendation in 2012. FHFA transferred the program to DOC in 2013, and it later updated the Procedures.

COMPLIANCE REVIEW RESULTS

We tested FHFA’s compliance with key Procedure requirements over the period January 1, 2014, to June 30, 2015.⁵ Specifically, we tested FHFA’s implementation of the requirements that it: respond within 30 days to consumer communications, provide in such responses consistent information to consumers, and monitor the status of consumer communications referred to the Enterprises. We determined that FHFA complied with these requirements except for a few exceptions noted below. Based upon the results of our testing, we conclude that during our review period FHFA successfully implemented the Procedures, and that the Agency’s adoption of our recommendation strengthened its capacity to manage and administer consumer communications.

FHFA Responded to 97% of Consumer Communications Within 30 Days

We tested whether FHFA responded to consumer communications within 30 days as required by the Procedures. To do so, FHFA provided data from its electronic tracking system concerning the receipt and response dates for the 1,803 consumer communications that the Agency identified as requiring responses during our review period.⁶

From the data FHFA provided, we calculated that the Agency met this requirement 97% of the time. The median response time was one day, and the average response time was three days. FHFA did not respond within 30 days in 1% of the cases. Due to limitations in the data, we were unable to calculate whether the Agency met the requirement in 2% of the cases.⁷

FHFA’s Consumer Communication Responses Were Consistent with Agency Guidance

We tested whether FHFA’s responses to consumers complied with Agency guidance that is intended to ensure the consistency of such responses. To accomplish this, we first selected a random and statistically representative sample of the population of consumer communications the Agency received during our review period.⁸ We requested that FHFA provide the

⁵ We also obtained from FHFA the Enterprises’ weekly referral status reports from 2014-2015, as well as the Agency’s notes from a sample of required monthly meetings in 2015.

⁶ See the Objective, Scope, and Methodology section of this report for additional information on how we conducted this test.

⁷ In 37 of the cases (or 2%), FHFA did not have records of the date upon which it responded to consumers’ communications. Therefore, we could not calculate the time it took the Agency to respond in each of these 37 cases.

⁸ See the Objective, Scope, and Methodology section of this report for information about our sampling procedures.

complete record for each item in our sample, including the original communications, Agency communications with the consumers, and Agency communications with the Enterprises and other organizations. We reviewed the content of the communications and compared FHFA's response to the guidance governing the content of such responses.

We determined that FHFA provided a consistent response as required by guidance in all 121 sample items. For example, FHFA provided the 23 consumers in our sample whose communication were about the HARP program with relevant points of contact and information regarding it. FHFA notified the 36 consumers in our sample that the Agency had referred the consumers' communications to the Enterprises. Given our sample testing results, we estimate that there were no significant compliance errors in the population of consumer communications the Agency received during our review period.

The Enterprises and FHFA Generally Complied with Procedure Requirements Regarding Referred Consumer Communications

Enterprises Prepared and Submitted to FHFA Weekly Status Reports on Referrals

We tested the Enterprises' compliance with FHFA's requirements for monitoring referred consumer communications. To do so, we obtained and reviewed FHFA's records of the Enterprises' weekly status reports during 2014 and 2015, which reflect that the Enterprises submitted the reports to the Agency as required.

In reviewing the reports, we noted that they included information regarding 35 of the 36 cases in our sample that FHFA had referred to the Enterprises. The reports contained summaries of the Enterprises' efforts to research the issues presented and follow-up with the consumers; they also indicated whether the referrals were open or resolved. Although an Enterprise omitted one item from its weekly report, our review of the source records revealed that the Agency monitored the Enterprise's resolution of this matter.

FHFA Held Monthly Status Referral Meetings with the Enterprises

Finally, we reviewed FHFA's records of its monthly meetings with each Enterprise regarding the status of referred consumer communications to determine whether DOC and DER employees attended those meetings, as required by the Procedures, and whether substantive discussions about the status and resolution of particular consumer communications took place during those meetings. We obtained documentation sufficient for a judgmental sample of the records regarding meetings held during 2015 with each Enterprise: two monthly meetings during February, July, August, and November for a total of eight meetings.

Our review of FHFA's documents demonstrated that the Agency held the meetings necessary to comply with the Procedures. Notes taken by an FHFA employee during these meetings

show that DOC employees participated in each of the eight meetings. The same notes reflect that DER employees attended five of the eight meetings.⁹ From our review of these documents, we found that discussions at these meetings by FHFA and Enterprise employees focused on the status and resolution of particular referred consumer communications.

⁹ For three of eight sample items, FHFA's meeting notes either do not contain a record of DER's attendance or explicitly state that DER did not attend.

CONCLUSION.....

In our 2011 Audit Report, we found that FHFA lacked the capacity to manage and administer consumer communications it received in the wake of the financial crisis. Accordingly, we recommended FHFA take specific actions to remediate these deficiencies in its operations.

In response to our recommendation, FHFA developed the Procedures for handling consumer communications, implementing guidance, and an electronic tracking system. In this compliance review, we tested FHFA's and the Enterprises' implementation of key Procedure requirements.

We found that FHFA complied with the key components of the Procedures that we tested with the few exceptions noted in this report. Accordingly, we conclude: (1) FHFA has implemented and maintained the corrective action that the Agency established to address the recommendation; and (2) as a result of FHFA's actions, the intended effect of OIG's recommendation—that FHFA strengthen its capacity to manage and administer consumer communications—has been realized.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this compliance review was to test FHFA’s compliance with key requirements in the Procedures for handling consumer communications.¹⁰ Our sub-objectives were to assess that FHFA (1) responded timely; (2) responded consistently with required information; and (3) monitored referrals. We assessed FHFA’s compliance with the Procedures for responding to consumers timely and consistently during the period January 1, 2014, to June 30, 2015, as well as its compliance for monitoring referrals during calendar year 2015. We did not design this compliance review to assess the appropriateness of FHFA’s responses to individual consumers or to evaluate the Enterprises’ processes for handling such referrals.

To select consumer communications for our review, we obtained from FHFA a population of 2,111 consumers who contacted the Agency for the first time during the period January 1, 2014, to June 30, 2015. The data included specific information about the communications in the population, such as FHFA’s receipt date, closure status, and response date. We excluded from the population 308 consumer communications for which FHFA identified it was not required to respond.¹¹ Accordingly, our final population was comprised of 1,803 consumers, from which we selected a random and statistically representative sample of 121 consumers.¹² Using this sample, we assessed the reliability of the data by comparing the FHFA-provided receipt and response dates to the source records. We concluded that the data elements we used were sufficiently reliable for purposes of assessing FHFA’s compliance with the Procedures.

To address the first sub-objective, we used an Excel formula to compare the receipt and response dates for the population and identified any items exceeding FHFA’s 30-day response timeline.

To address the second sub-objective, we analyzed the sample of 121 consumer communications by identifying each consumer’s inquiry topic and then comparing it to the Agency’s response to determine if the Agency included the required topical information from its internal guidance.

¹⁰ Three versions of the Procedures were applicable during our review period: September 26, 2012; January 7, 2015; and July 14, 2015. The Procedures did not differ materially with respect to their requirements.

¹¹ The Agency is not required, per the Procedures, to respond if it is not the primary addressee of a consumer’s communication.

¹² We selected the sample with a 95% confidence level, 5% margin of error, and an expected deviation rate of 10%.

To address the third sub-objective, we requested that FHFA provide documentation of the Enterprises' weekly referral status reports for 2014 and 2015. In addition, we reviewed FHFA's electronic notes for a judgmental sample of the monthly meetings during 2015 (meetings with each Enterprise in February, July, August, and November for a total of eight meetings) to evaluate whether the required attendees met with the Enterprises and discussed referrals.

Finally, we interviewed Agency and Enterprise personnel responsible for processing consumer communications and reviewed other public and internal Agency documents relating to consumer communications.

We conducted our compliance review during the period March 2016 to June 2016 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which were promulgated by the Council for the Inspectors General on Integrity and Efficiency.

We also provided a draft of this report to FHFA for its review and comment. The Agency declined to provide a management response letter.

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