



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

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TO: Jeffrey Spohn,
Senior Associate Director, Office of Conservatorship Operations

George Grob

FROM: George Grob,
Deputy Inspector General for Evaluations

SUBJECT: Evaluation Survey Report 2012-003
FHFA's Oversight of the Enterprises' Charitable Activities

DATE: March 22, 2012

This memorandum reports the results of FHFA-OIG's survey of FHFA's oversight of the charitable activities of Fannie Mae and Freddie Mac (the Enterprises).

At the time the conservatorships were established, both Fannie Mae and Freddie Mac were making substantial contributions to charitable organizations. In 2008, the Enterprises' total charitable giving and related expenses amounted to \$73 million. Although funding charitable activities may have been appropriate for the Enterprises acting as private businesses, questions have arisen concerning whether it is still appropriate now that they rely on taxpayer funds to cover their annual losses. Therefore, FHFA-OIG reviewed FHFA's oversight of:

- Current and planned funding of Enterprise-sponsored charitable spending;
- The nature of the charities supported by such spending; and
- The policies and procedures established to control spending.

FHFA-OIG analyzed relevant documents and data, and spoke to FHFA and Enterprise staff familiar with the charitable giving programs.

Charitable giving has continued since the conservatorships were established, totaling \$147 million from 2009 through 2011. However, FHFA-OIG found that, in December 2008, FHFA established controls to ensure charitable giving would be consistent with the Enterprises' housing missions, well managed and monitored, and not politically motivated. Additionally, in early 2010, FHFA issued a series of directives to phase out all of the Enterprises' charitable giving and established various target dates for doing so. By 2011, the Enterprises' combined annual donations have leveled-off at \$50 million; corporate donations are scheduled to end in 2013; and

payments from the Freddie Mac Foundation are targeted to end in early 2015. In light of FHFA's controls over and planned phase out of the Enterprises' charitable activities, FHFA-OIG has decided that there is no need to conduct additional evaluative work in this area at this time. However, FHFA-OIG will continue to monitor FHFA's oversight of the Enterprises' charitable giving and will revisit this subject if necessary.

FHFA-OIG recommends that FHFA:

- (1) Continue to monitor the Enterprises' progress; and
- (2) Continue to require the Enterprises to issue timely, quarterly reports on their charitable activities via their websites.

The details of FHFA-OIG's analysis can be found in the Attachment to this memorandum entitled, "Evaluation Survey Report: FHFA's Oversight of the Enterprises' Charitable Activities." FHFA agreed with FHFA-OIG's recommendations, and its response can be found in its entirety at Appendix C to the Attachment.

This survey was conducted by Investigative Evaluator Bruce McWilliams and Investigative Counsel Christopher G. Poor. FHFA-OIG appreciates the cooperation of FHFA and Enterprise staff, as well as the assistance of all those who contributed to the preparation of this report.

Attachment: Evaluation Survey Report: FHFA's Oversight of the Enterprises' Charitable Activities

cc: Mark Kinsey, Chief Financial Officer
Bruce Crandlemire, Senior Advisor

ATTACHMENT

Evaluation Survey Report No. 2012-003

FHFA's Oversight of the Enterprises' Charitable Activities

**Federal Housing Finance Agency
Office of Inspector General
March 22, 2012**

FHFA's Oversight of the Enterprises' Charitable Activities

Purpose

The purpose of this survey is to assess oversight by the Federal Housing Finance Agency (FHFA or the Agency) of charitable spending by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Background

In 2008, the Housing and Economic and Recovery Act (HERA)¹ established FHFA as the regulator of two housing government-sponsored enterprises: Fannie Mae and Freddie Mac (collectively, the Enterprises). In September 2008, the Enterprises entered conservatorships overseen by FHFA due to concerns about their deteriorating financial condition. As conservator, FHFA, among other things, may take such action as it deems “necessary to put the regulated entity in a sound and solvent condition,” and “appropriate to carry on the business of the regulated entity and preserve and conserve [its] assets and property.”²

Charitable Giving Programs

At the time the conservatorships were established, both Fannie Mae and Freddie Mac were making substantial contributions to charitable organizations through the following mechanisms:³

Fannie Mae

- The Fannie Mae Foundation (dissolved in 2009);
- Direct corporate contributions; and
- Matching donations for employees' personal charitable giving.

Freddie Mac

- The Freddie Mac Foundation;

¹ Public Law No. 110-289.

² HERA at § 1145 (codified at 12 U.S.C. § 4617(b)(2)(D)).

³ As private companies, unless restricted by applicable law or their bylaws and charters, Fannie Mae and Freddie Mac are free to contribute to charities as their managers and boards of directors deem appropriate. With the advent of the conservatorships, and FHFA's assumption of all rights of officers, board members, and shareholders, the Agency has authority to control the Enterprises' charitable activities.

- In-kind corporate support (e.g., employee salaries and office space) of the Freddie Mac Foundation;
- Contributions through the Freddie Mac Donor Advised Fund (DAF) program;
- Direct corporate contributions (ended after 2010); and
- Matching donations for employees' personal charitable giving.

Since the conservatorship commenced in the third quarter of 2008, Fannie Mae's charitable giving has decreased each year at the corporate level, but the Freddie Mac Foundation's giving has increased. The majority of Freddie Mac's charitable giving is not taxpayer subsidized, but instead is derived from the pre-funded reserves of the Foundation. The surge in the Freddie Mac Foundation's charitable giving is intended to more rapidly empty the Foundation's trust fund.

From 2008 through 2011, the Enterprises' and Freddie Mac Foundation's charitable giving and related expenses totaled \$219 million.

Oversight of Charitable Giving Initially Continued After Conservatorship

Direct Control. On October 20 2008, FHFA's then-Director issued his "Initial Conservator Guidance,"⁴ which, among other things, allowed the Enterprises to continue charitable activities because of the supporting role that such activities would play during the economic downturn. However, FHFA subjected the Enterprises' charitable activities to additional oversight. Specifically, FHFA reviewed and approved each charitable funding proposal during the initial months of the conservatorship.

Delegated Authority. On December 18, 2008, FHFA amended its October requirement that the Agency must review individual requests. FHFA's then-Director delegated to Fannie Mae and Freddie Mac authority to approve charitable contributions, subject to FHFA guidance and to board of directors and senior management oversight. FHFA's new guidance, "controls and process improvements,"⁵ included increasing focus on activities related to housing; preventing foreclosures; working to reduce homelessness and stabilize neighborhoods; and prohibiting contributions for political purposes. The new controls and process improvements also required the Enterprises to report quarterly to FHFA about:

- All charitable activities and payments to charitable organizations;
- How each charitable recipient's objectives corresponded to the objectives of the donation;

⁴ "Fannie Mae and Freddie Mac Overview of Charitable Contributions under Conservatorship," Director's Presentation, Office of Federal House Enterprise Oversight, October 20, 2008, p.8. (Although the presentation slides include the Office of Federal Housing Enterprise Oversight (OFHEO) logo, FHFA had replaced OFHEO by this point.)

⁵ Descriptive terminology used to describe the steps in December 18, 2008, letters to Herbert M Allison, Jr., Chief Executive Officer, Fannie Mae, and to David M. Moffett, Chief Executive Officer, Freddie Mac.

- Whether the charitable recipients met their goals; and
- The adequacy and effectiveness of internal controls, as assessed by internal audits.

Fannie Mae and Freddie Mac were also required to post their reports on their websites, and to develop a management process to certify compliance with their FHFA-approved housing mission objectives; attest to the adequacy of their internal control environment; and certify to the accuracy of their quarterly funding reports.

Oversight. FHFA's Office of Conservatorship Operations (OCO) oversees the Enterprises' charitable giving activities by reviewing their:

- Charitable giving budgets and processes;
- Quarterly charitable reports;
- Annual certifications; and
- Internal and external audit reports of their charitable activities.

OCO also requires both Enterprises to establish processes to ensure public speaking engagements are vetted within their company to confirm strict avoidance of lobbying or political activities. Additionally, OCO attends Freddie Mac Foundation board and committee meetings.

Subsequent Plans to End Charitable Giving

On March 1, 2010, and May 7, 2010, FHFA's Acting Director issued directives to curtail – and eventually end – the Enterprises' charitable giving. Regarding Fannie Mae, the Acting Director ordered it to wind-down all charitable giving by the end of 2013. On January 31, 2012, FHFA capped 2013 charitable giving and provided additional direction for matching employee charitable contributions.

The legal structure of Freddie Mac's charitable operations presented more of a challenge because the Freddie Mac Foundation (unlike the Fannie Mae Foundation) continues to operate. In 2009, the Freddie Mac Foundation submitted a plan to wind-down the Foundation in approximately eight years. In 2010, the Foundation's Board was asked to re-evaluate that plan and develop alternative strategies for a faster wind-down. In 2011, Freddie Mac was directed to wind-down the Foundation by 2014 or early 2015. To do so, the Foundation has accelerated the outlay of funds from its trust, and this caused an increase in its giving in 2011.

According to Virginia law and the Internal Revenue Code, the Foundation cannot be shut down until all funds in its trust are spent or transferred to another qualifying foundation. To the extent that the Freddie Mac Foundation still has funds at the end of 2014, it will make lump sum distributions to charities in the early part of 2015.

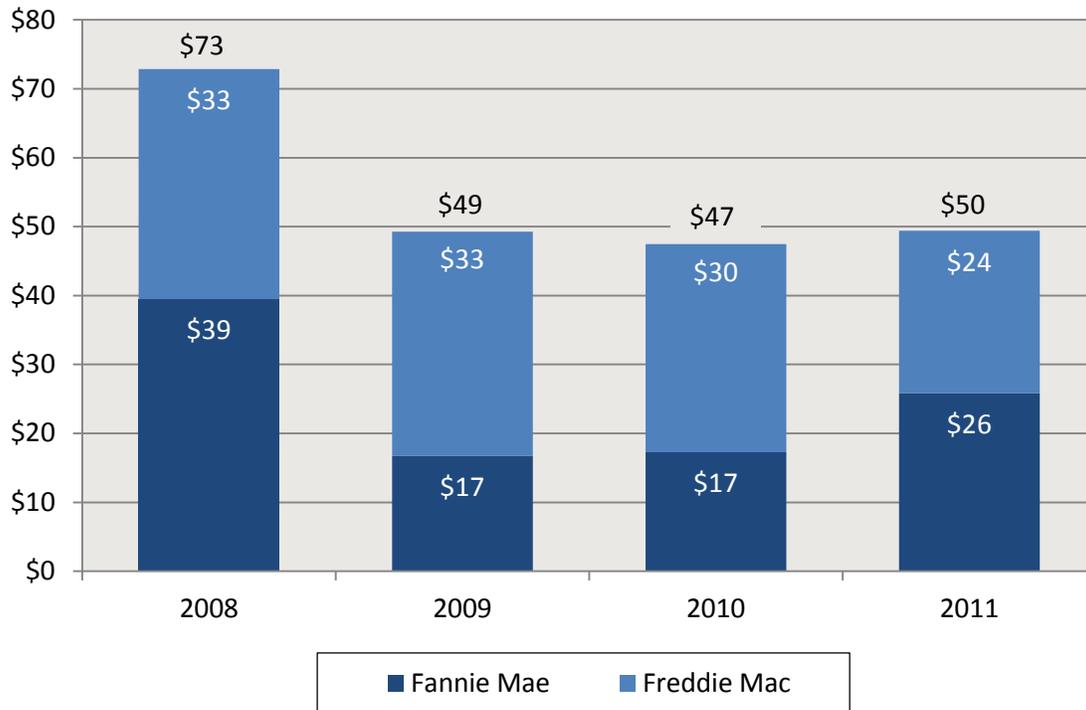
During 2010 and 2011, the Acting Director also directed Freddie Mac to:

- Stop direct corporate charitable contributions in 2011 and beyond;
- Eliminate in-kind contributions related to personnel expenses of the Freddie Mac Foundation beginning in 2012;
- Eliminate two director vacancies at the Foundation; and
- Disburse funds within the Freddie Mac DAF by 2013.

In view of FHFA’s directives to wind-down charitable donations and non-profit support, the Enterprises have reduced charitable spending as illustrated in the figure below.

Fannie Mae & Freddie Mac Charitable Giving and Related Expenses⁶

in \$Millions



(All charitable grants, employee matching, and administrative expenses were \$219 million for 2008-2011.)

⁶ See Appendix A for additional information about Freddie Mac’s charitable giving and Appendix B for information about Fannie Mae’s activities.

Conclusion

FHFA has taken significant steps to implement its oversight of the Enterprises' charitable contributions programs, including the creation of detailed program controls. Further, the Agency has established a policy of reducing the amount of the Enterprises' charitable contributions over an established timeframe.

Recommendations

FHFA-OIG recommends that FHFA:

- (1) Continue to monitor the Enterprises' progress; and
- (2) Continue to require the Enterprises to issue timely, quarterly reports on their charitable activities via their websites.

Appendix A – Freddie Mac Charitable Giving

Since 2008, Freddie Mac and the Freddie Mac Foundation have dedicated \$99 million towards charitable activities. Of this, \$8 million has been spent on in-kind administrative support and \$24 million on corporate community investments, as shown in the table below.

Freddie Mac Charities (\$ millions)

	2008	2009	2010	2011	Total
Freddie Mac Foundation Grants & Contributions	\$15	\$12	\$12	\$20	\$59
Matching Employee Personal Charitable Giving	\$1	\$1	\$1	\$2	\$6
In-Kind Support: Payment of the Foundation's Administrative Expenses	\$2	\$2	\$2	\$2	\$8
Donor Advised Fund	\$0	\$0	\$0	\$2	\$2
Corporate Community Investments	\$21	\$2	\$1	\$0	\$24
Total	\$40	\$17	\$17	\$26	\$99

Note: Numbers may not total due to rounding.

Freddie Mac Foundation

The Freddie Mac Foundation was incorporated in 1991 as a charitable nonprofit corporation. Since 2003, it has been funded by an irrevocable trust, and it does not rely on Freddie Mac operational funds or other corporate donations.

The Foundation¹ invests primarily in programs that:

- Create stable homes and families, support emergency shelter, or provide transitional housing;
- Improve the lives of foster children by helping to place them in homes; and
- Help young people in low-income communities through academic and career success activities.

In addition, the Foundation matched charitable contributions – up to \$10,000 annually – made by Freddie Mac employees and Freddie Mac Foundation board members through 2010. In 2011, the matching cap increased to \$20,000.

¹ For a complete list of charitable and nonprofit organizations that received contributions or grants from the Freddie Mac Foundation, see <http://www.freddiemacfoundation.org>.

In-Kind Support for the Foundation

Before 2007, the Foundation reimbursed Freddie Mac for office space, employee salaries, and other administrative expenses. In 2007, Freddie Mac decided to follow industry practice and pay all of the Foundation's employee salaries and other selected expenses. FHFA has directed Freddie Mac to stop making in-kind personnel and related expense contributions, and so, beginning in 2012, the Foundation will reimburse the Enterprise for salaries paid on its behalf. However, the Foundation will not reimburse Freddie Mac for facilities and equipment costs.

Donor Advised Fund

In December 2002, Freddie Mac and the Community Foundation for the National Capital Area established the DAF with a \$20 million irrevocable gift from the Enterprise. According to the Internal Revenue Code, generally, a donor advised fund is a separately identified fund or account that is maintained and operated by a nonprofit organization, which is referred to as a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the sponsoring organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to distributing funds and investing assets in the account.

No money was disbursed from the DAF between the commencement of the conservatorship and December 31, 2009. In 2010, FHFA directed Freddie Mac to assert more control over the DAF, and funds began to be disbursed. Freddie Mac intends for the DAF to exhaust its funding in 2013. As of December 31, 2011, the DAF's account balance was approximately \$5 million.

Freddie Mac Corporate Donations

Freddie Mac also made direct corporate donations to nonprofit organizations for charitable and business purposes. The former contributions typically supported nonprofits that create and preserve affordable housing, help prevent foreclosures, and strengthen communities.²

FHFA directed Freddie Mac to stop making corporate donations after 2010. And, in its *Enterprise Nonprofit Spending Plan for 2011*, Freddie Mac pledged that the Freddie Mac Foundation or the DAF would henceforth fund all of the Enterprise's purely corporate charitable donations.

² For a list of corporate community investment recipients, see http://www.freddiemac.com/corporate/citizenship/pdf/2011_corp_comm_investments.pdf.

Appendix B – Fannie Mae Charitable Giving

From 2008 through the fourth quarter of 2011, Fannie Mae spent \$120 million on charitable activities, as shown in the table below. This includes charitable grants, expenses for a “Help the Homeless Walk-a-thon,” employee matching gifts, and \$19 million in administrative expenses.

Fannie Mae Charities (\$ millions)

	2008	2009	2010	2011	Total
Fannie Mae Foundation	Dissolved in 2009				
Direct Corporate Contributions to Charities	\$26 ¹	\$26	\$24	\$19	\$96
Matching Employee Personal Charitable Giving	\$1	\$1	\$2	\$1	\$5
Administrative Expenses ²	\$6	\$5	\$4	\$3	\$19
Total	\$33	\$33	\$30	\$24	\$120

Note: Numbers may not total due to rounding.

Fannie Mae Foundation

In 2007, Fannie Mae began to wind-down the Fannie Mae Foundation. By 2009, the foundation was dissolved.

Direct Corporate Contributions to Charities

Fannie Mae provides grants to nonprofit organizations to support:

- Foreclosure prevention and neighborhood stabilization initiatives;
- Efforts to prevent homelessness; and
- Affordable housing opportunities.³

¹ Includes charitable contributions administered by the Office of Community and Charitable Giving.

² Administrative expenses include \$6 million in professional service fees incurred primarily for the Help the Homeless Walk-a-thon on the National Mall.

³ For a complete list of charitable and nonprofit organizations that received contributions or grants from Fannie Mae, see <http://www.fanniemae.com/portal/about-us/company-overview/charitable-giving.html>.

Matching Employees' Personal Charitable Giving

From 2008 through 2010, Fannie Mae matched charitable contributions – up to \$10,000 annually – made by Enterprise employees. Further, the first \$500 in employee donations was matched on a 2-for-1 basis. Beginning in 2011, the annual matching cap was reduced to \$5,000, and double matching was eliminated. Total matching contributions are to be reduced to \$0.8 million in 2012. On January 31, 2012, FHFA capped the 2013 charitable giving and provided additional direction for matching employee charitable contributions.

Fannie Mae also sponsors an employee program called “Dollars for Doers.” Under the program, the Enterprise contributes \$100 to a charity for every 25 hours of community service performed by its employees at the charity, and up to \$500 for 100 hours of service.

Administrative Expenses

Fannie Mae’s Office of Community and Charitable Giving oversees selecting and funding charitable recipients. The Office was created in July 2007, and is subject to oversight by the Nominating and Corporate Governance Committee of the Board of Directors.

Each year, the Office of Community and Charitable Giving meets with business units to identify nonprofit groups whose work and mission aligns with Fannie Mae’s grant-making objectives. The Office does not accept unsolicited grant requests and has indicated that it will not provide grants to lobbyists or politically affiliated groups.

Appendix C – Response to Conclusion and Recommendations



Federal Housing Finance Agency

MEMORANDUM

TO: George Grob, Deputy Inspector General for Evaluations

FROM: Jeffrey Spohn, Senior Associate Director, Office of Conservatorship Operations

SUBJECT: Evaluation Survey Report: Recommendation Status for FHFA's Oversight of the Enterprises' Charitable Activities (Evaluation Survey Report 2012-003)

DATE: March 5, 2012

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management responses to the status of the recommendations resulting from the survey performed by your staff. As stated in report, the purpose of the survey was to assess FHFA's oversight of charitable spending by Fannie Mae and Freddie Mac.

This memorandum: (1) identifies management's actions that have been taken to implement the recommendations, and (2) identifies the actions that FHFA will take to address the recommendations.

Recommendation (1): Continue to monitor the Enterprises' progress.

Management Response: FHFA agrees with the recommendation. FHFA's Office of Conservatorship Operations will continue to be engaged with the Enterprises, review submissions, and monitor adherence to the approved charitable giving expense budget and parameters. The Office of Conservatorship Operations will provide a final summary report of its oversight of charitable giving activities by January 31, 2013.

Recommendation (2): Continue the requirement for the Enterprises to issue timely, quarterly reports on the charitable activities of the Enterprises via their websites.

Management Response: FHFA agrees with the recommendation. FHFA's Office of Conservatorship Operations will continue to ensure adherence to the written requirements for posting contributions on their respective websites quarterly and maintaining appropriate controls and certification processes surrounding the giving reports. The Office of Conservatorship Operations will provide a final summary report of its oversight of the Enterprises' reporting on charitable activities by January 31, 2013.

Appendix D – Objective, Scope, and Methodology

The purpose of this survey was to assess FHFA’s oversight of charitable spending by Fannie Mae and Freddie Mac.

In light of the controls that FHFA has established over charitable activities and its plan to phase out such activities, FHFA-OIG decided to limit its review.

To assess the appropriateness of FHFA’s oversight, FHFA-OIG analyzed:

- Information regarding the nature and structure of charitable giving programs of Fannie Mae and Freddie Mac, both before and after they entered conservatorships;
- Cost streams for each year beginning in 2008 (the first year of conservatorships) through 2011;
- Guidance issued by FHFA concerning the purpose, scope, and funding goals for each line of charitable giving;
- Administrative procedures that govern the selection, funding, periodic reporting, and auditing of charities that were funded; and
- Plans for the phasing out of charitable activities.

FHFA-OIG did not independently audit charitable activities funded by the Enterprises or test their compliance with FHFA’s guidance. However, FHFA-OIG will monitor FHFA’s oversight of the Enterprises’ charitable giving during the phase out period and will revisit this subject if necessary.

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