



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2014, through September 30, 2014



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OIG's Mission

The mission of the Federal Housing Finance Agency Office of Inspector General (OIG) is to: promote the economy, efficiency, and effectiveness of the programs and operations of the Federal Housing Finance Agency (FHFA or Agency); prevent and detect fraud, waste, and abuse in FHFA's programs and operations; review and, if appropriate, comment on pending legislation and regulations; and seek administrative sanctions, civil recoveries, and criminal prosecutions of those responsible for fraud, waste, or abuse in connection with the programs and operations of FHFA.

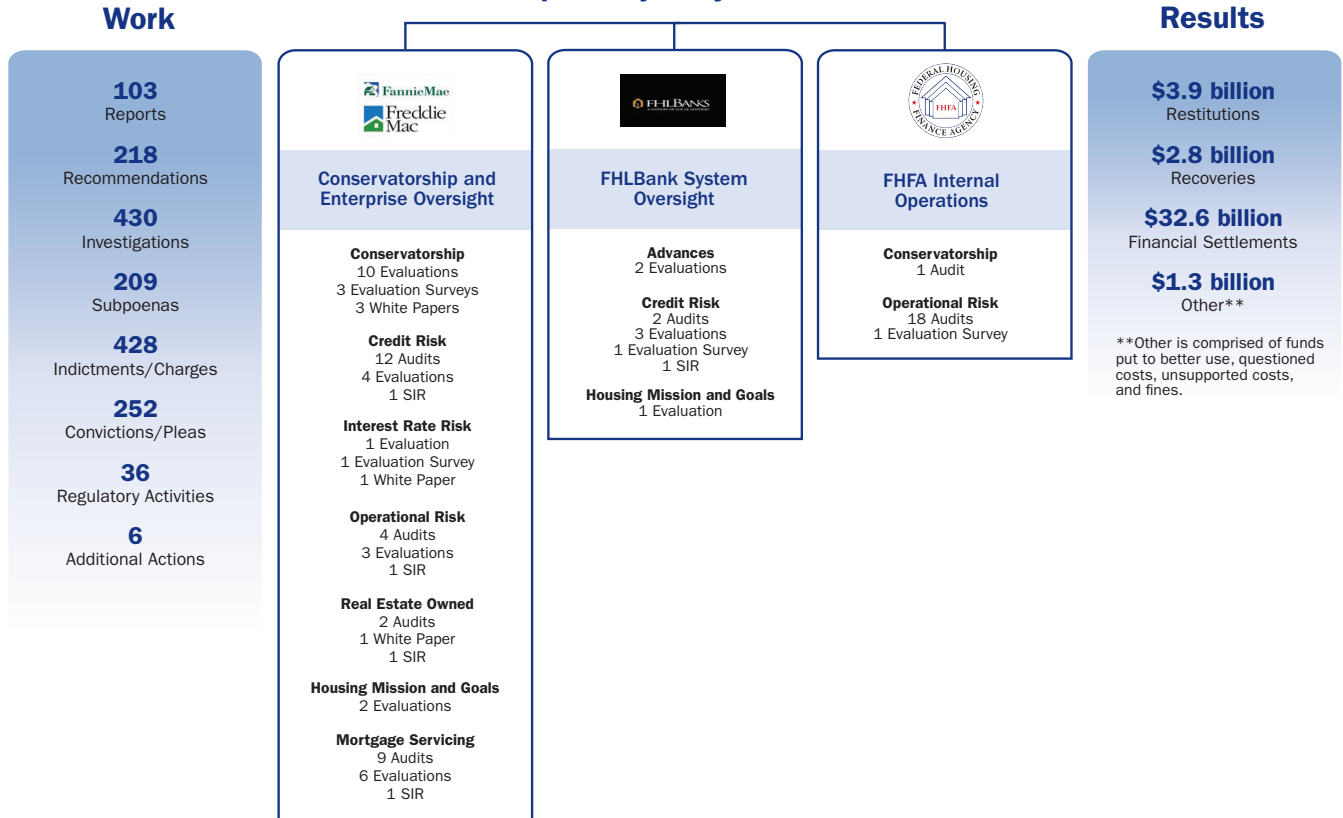
In carrying out this mission, OIG conducts independent and objective audits, evaluations, investigations, surveys, and risk assessments of FHFA's programs and operations; keeps the head of FHFA, Congress, and the American people fully and currently informed of problems and deficiencies relating to such programs and operations; and works collaboratively with FHFA staff and program participants to ensure the effectiveness, efficiency, and integrity of FHFA's programs and operations.

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OIG's Accomplishments from 2010 to Present



Reports by Subject Area



*12 SIRs have been produced, of which 5 have been published publicly and 7 remain privileged due to their investigative content.

A Message from the Acting Inspector General

I am pleased to present OIG's eighth Semiannual Report to the Congress, which covers our activities and operations from April 1, 2014, to September 30, 2014.

During this semiannual reporting period, OIG continued to reinforce the effectiveness, integrity, and transparency of FHFA, acknowledging where FHFA's efforts have enhanced the operations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks) (collectively, the government-sponsored enterprises, or the GSEs) and recommending improvements where warranted.

Since April 1, OIG has issued 15 audit and evaluation reports focusing on key mission areas affecting the nation's housing finance system. These reports address a range of topics, including Fannie Mae and Freddie Mac's (collectively, the Enterprises) reliance on counterparties to comply with selling and servicing guidelines, the financial impact of lender-placed insurance on the Enterprises, and the progress of the development and implementation of the Common Securitization Platform.

OIG also issued a systemic implication report identifying fraud indicators and extracting lessons learned from a multifaceted scheme carried out by officers and employees of a former Enterprise-approved mortgage originator and an insured depository institution. Additionally, OIG continued to investigate crimes perpetrated against FHFA and the GSEs. Our efforts since April 1 resulted in the indictment of 121 individuals and the conviction of 67 individuals, and the award of more than \$353 million in criminal fines and restitution orders. Of note, as a contributor to the Residential Mortgage-Backed Securities Working Group, OIG, along with other federal and state agencies, reached a \$16.65 billion settlement with Bank of America and a \$7 billion settlement with Citibank. And, in New York, a former Countrywide official was ordered to pay over \$1 million in a civil penalty.

I am always inspired by the diligence and hard work of OIG's employees. It is with profound gratitude that I was afforded the opportunity to lead them for the past year, and I thank them for their achievements summarized in this report. Over this past year, Director Watt has extended to me a respectful and congenial relationship; I am thankful for that. On September 17, 2014, the Senate confirmed Ms. Laura S. Wertheimer as Inspector General, and she will soon take the oath of office and commence her leadership. It has been an honor for me to lead OIG, and now I look forward to the guidance and leadership of Ms. Wertheimer.

Michael P. Stephens
Acting Inspector General
October 31, 2014



Michael P. Stephens
Acting Inspector General of the
Federal Housing Finance Agency

Executive Summary

Overview

This Semiannual Report discusses OIG operations and FHFA developments from April 1, 2014, to September 30, 2014.¹

During this semiannual reporting period, OIG issued 15 audit and evaluation reports and investigative efforts resulted in the indictment of 121 individuals and the conviction of 67 individuals. FHFA issued a number of directives and prepared for the potential merger of two **FHLBanks**.*

Economic conditions continued to improve since our last Semiannual Report, especially in the housing sector. **Fannie Mae** and **Freddie Mac** remained the dominant players in the secondary market for residential mortgages and reported continued profits resulting from, among other factors, an increase in home prices, higher guarantee fees, improving credit quality, and reduced **defaults**. In addition, the Enterprises continued to recover settlements as a result of litigation alleging private-label securities violations against 18 financial institutions.

Meanwhile, some FHLBank members' borrowing increased due to growth in economic activity. Overall demand for advances continued to increase due to high member borrowing, particularly by large-asset members. However, as the average balances of advances increased, the yields on interest-earning

assets and the average balances of mortgage loans decreased, contributing to an overall decline in interest income.

Exploring these and other issues, this report is organized as follows: Section 1, *OIG Description, Accomplishments, and Strategy*, highlights several OIG audits, evaluations, and investigations relating to the programs and operations of FHFA; and Section 2, *FHFA and GSE Operations*, provides a closer look at FHFA and **GSE** developments during this reporting period.

Section 1: OIG Description, Accomplishments, and Strategy

This section provides a brief overview of OIG's organization and describes its oversight activities, including audits, evaluations, and investigations. It also discusses OIG's priorities and goals.

For example, in this section we discuss the following OIG reports:

- *FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs* (EVL-2014-009, June 25, 2014), in which we evaluated the financial impact of lender-placed insurance on the Enterprises and determined whether FHFA, in its role as the Enterprises' conservator, has taken sufficient measures to conserve the Enterprises' assets in this regard.
- *Status of the Development of the Common Securitization Platform* (EVL-2014-008, May 21, 2014), in which we evaluated the development and implementation of the Common Securitization Platform, which

***Terms and phrases in bold are defined in Appendix A, 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.**

FHFA states will consist of integrated hardware architecture and software applications that the Enterprises will use to perform certain back office **securitization** functions.

- *FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices* (AUD-2014-015, August 7, 2014), which looked at the effectiveness of FHFA's oversight and Fannie Mae's controls over delegated **servicers** to ensure that net proceeds received for **short sales** met the minimum amount authorized by Fannie Mae.
- *Systemic Implication Report: TBW-Colonial Investigation Lessons Learned* (SIR-2014-0013, August 21, 2014), in which we identified fraud indicators and extracted lessons learned from the multifaceted and multiyear fraud scheme perpetrated by officers and employees of Taylor, Bean & Whitaker Mortgage Corporation and Colonial Bank.

We also discuss numerous OIG investigations that resulted in indictments and convictions of individuals responsible for fraud, waste, or abuse in connection with FHFA's and the regulated entities' programs and operations, and in fines and restitution orders totaling more than \$1.6 billion.

Further, this section addresses our:

- Audit and Evaluation Plan, which focuses on areas of FHFA operations posing the greatest risks to the Agency and to the GSEs;
- Systemic Implication Reports, which identify potential risks and weaknesses in FHFA's management control systems that we discovered during the course of our investigations;
- Regulatory Activities, which include our assessment of proposed legislation, regulations, and policies related to FHFA; and
- Communications and Outreach Efforts, which educate stakeholders—FHFA, Congress, policymakers, and the public—about OIG, FHFA, and GSE developments, as well as broader issues of fraud, waste, and abuse.

Section 2: FHFA and GSE Operations

This section describes the organization and operations of FHFA, the Enterprises, and the FHLBanks, as well as key developments for each during the reporting period.

It also details the Enterprises' financial results. While the Enterprises continued to be profitable, there was lower net income as a result of the release of valuation allowances against deferred tax assets in prior periods, the reduction of average balances in mortgage portfolios, lower credit-related income, and derivative losses due to a decrease in interest rates. At the same time, the Enterprises saw improvements. For example, the number of seriously delinquent loans has declined as the credit quality in the Enterprises' single-family business segments continues to improve. There has also been an increase in non-interest income as a result of settlement proceeds related to private-label securities litigation.

In addition, during this time period FHFA sought comment on multiple items. For example, FHFA and four other federal agencies sought comment on a proposed rule to establish margin requirements for swap dealers, major swap participants,

security-based swap dealers, and major security-based swap participants. FHFA also sought input on draft requirements for private mortgage insurance companies that insure mortgage loans owned or guaranteed by the Enterprises. And, FHFA sought public input on two items: the proposed structure for a Single Security, a type of mortgage-backed bond that would be issued and guaranteed by Fannie Mae or Freddie Mac; and on the guarantee fees that the Enterprises charge lenders. Finally, FHFA proposed a rule that would establish housing goals for the Enterprises in an effort to promote safe and sound lending to lower-income borrowers for single-family homes and require the Enterprises to continue to support affordable multifamily housing for low- and very low-income families. These and other developments are summarized in Section 2.

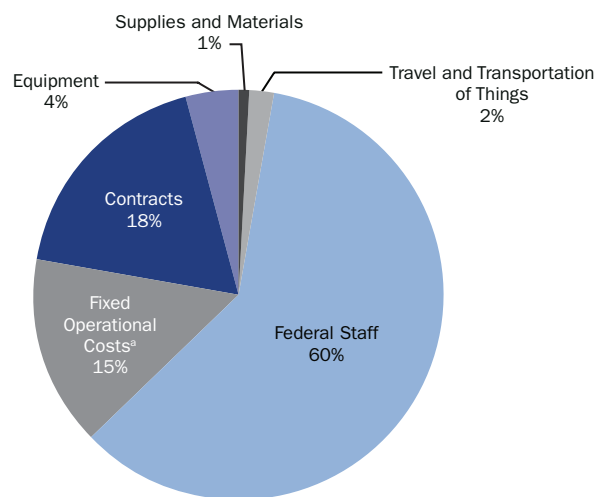
Section 1: OIG Description, Accomplishments, and Strategy

Description

OIG began operations on October 12, 2010. It was established by the **Housing and Economic Recovery Act (HERA)**, which amended the **Inspector General Act**. OIG conducts audits, evaluations, investigations, and other law enforcement activities relating to FHFA's programs and operations.

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 2014, OIG's operating budget (see Figure 1, below) was \$48 million, with 150 full-time-equivalent staff.

Figure 1. OIG's Operating Budget for Fiscal Year 2014



^a Fixed operational costs include items such as space rent, shared service agreements with other federal agencies to provide information technology and administrative services, printing, and the hotline.

Leadership and Organization

On April 12, 2010, President Barack Obama nominated FHFA's first Inspector General, Steve A. Linick, who was sworn into office on October 12,

2010. Mr. Linick resigned on September 29, 2013, and his Principal Deputy Inspector General, Michael P. Stephens, commenced acting in the capacity of Inspector General pursuant to 5 U.S.C. § 3345(a)(1).

Mr. Stephens was appointed as Principal Deputy Inspector General in September 2011. Prior to his joining OIG, Mr. Stephens served as Acting Inspector General and Deputy Inspector General for the Department of Housing and Urban Development (HUD). Earlier, he was the Deputy Assistant Inspector General for Investigations for the Department of Veterans Affairs and a senior criminal investigator for the Office of Inspector General for the Resolution Trust Corporation. These appointments followed a distinguished 20-year career with the Secret Service, during which he held the distinction of being assigned to the Presidential Protection Division at the White House, along with various supervisory positions within the agency.

On May 22, 2014, President Obama nominated Laura S. Wertheimer to the position of FHFA Inspector General. On June 17, 2014, Ms. Wertheimer testified before the Senate Committee on Banking, Housing, and Urban Affairs as the nominee for the position of Inspector General (a copy of her testimony is available at www.fhfa.oig.gov/testimony). And, on September 17, 2014, the Senate confirmed Ms. Wertheimer for the position of Inspector General.

OIG consists of the Acting Inspector General, senior staff, and OIG offices, principally: the Office of Audits (OA), the Office of Evaluations (OE), and the Office of Investigations (OI). Additionally, OIG's Executive Office (EO) and the Office of Administration (OAd) provide organization-wide supervision and support. (See Appendix E for OIG's

organizational chart and Appendix F for a detailed description of OIG's offices and strategic goals.)

Accomplishments and Strategy

From April 1, 2014, to September 30, 2014, OIG's significant accomplishments included: (1) issuing 15 audit and evaluation reports; (2) participating in a number of criminal and civil investigations; and (3) reviewing and commenting on FHFA rules.

Audits and Evaluations

During this semiannual period, OIG released 15 audit and evaluation reports, which are summarized below.

Evaluations

Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims (EVL-2014-011, August 27, 2014)

This report discussed Freddie Mac's process for reimbursing its servicers for delinquency expenses, examined the controls it has in place to minimize erroneous payments to servicers, and estimated the rate of improper payments to servicers in 2013. When borrowers become delinquent, a servicer may be required to maintain the property, pay taxes and insurance, and liquidate the loan. After the loan is

liquidated, the servicer seeks reimbursement of its expenses from Freddie Mac.

Freddie Mac has a multilayered review process to assess the validity of servicer reimbursement claims. Before it reimburses servicers, Freddie Mac selects a random, statistically significant sample of claims for a detailed prepayment review. OIG found that this review resulted in Freddie Mac's identifying and denying approximately \$126 million in erroneous claims in 2013. This process appears to be generally effective in reducing erroneous servicer reimbursement expenses. However, OIG estimated that in 2013 Freddie Mac paid about \$70 million to settle erroneous reimbursement claims that were not subject to the prepayment review. Accordingly, OIG believes that Freddie Mac may achieve additional savings by enlarging the sample of claims for prepayment review.

OIG recommended that FHFA require Freddie Mac to: (1) determine, by means of a cost-benefit analysis, whether to increase the sample size of the reimbursement claims for prepayment review; and (2) if warranted by the result of the cost-benefit analysis, increase the sample size of the reimbursement claims for prepayment review.

FHFA agreed that by August 31, 2014, it would direct Freddie Mac to complete a cost-benefit analysis and, if warranted, increase the sample size by October 31, 2014.

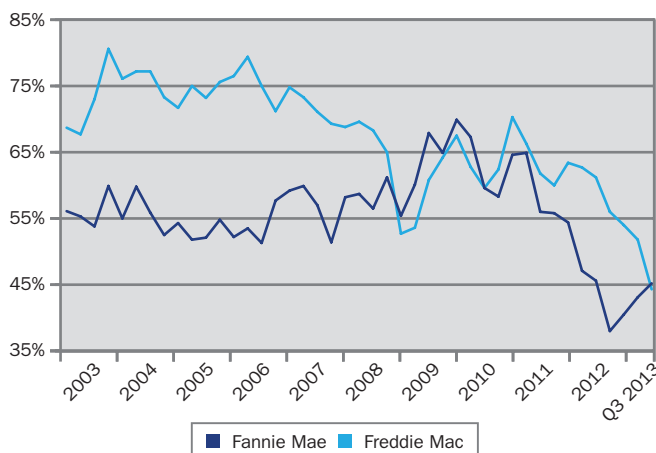
In 2013, Freddie Mac paid about \$70 million to settle erroneous reimbursement claims that were not subject to the prepayment review.

Recent Trends in the Enterprises' Purchases of Mortgages from Smaller Lenders and Nonbank Mortgage Companies (EVL-2014-010, July 17, 2014)

In recent years, the Enterprises have seen a shift in the composition of their mortgage sellers, with relatively fewer sales from large depository institutions and more sales from smaller lenders and nonbank mortgage companies. OIG conducted this evaluation to document the rise in sales from smaller financial institutions and nonbank mortgage companies, discuss the reasons behind this trend, and assess FHFA's oversight of the Enterprises' risk management controls.

Traditionally, the Enterprises bought most of their loans from the largest commercial banks and mortgage companies. These entities sold the Enterprises mortgages that they originated or purchased from smaller, independent lenders. Since 2011, however, the largest sellers have reduced their purchases from smaller lenders and, therefore, sold fewer loans to the Enterprises (see Figure 2, below). Smaller mortgage originators and nonbank mortgage companies have responded to the changing market by developing direct sales relationships with the Enterprises, thereby increasing their market share.

Figure 2. Market Share of the Enterprises' Top Five Sellers First Quarter 2003 Through Third Quarter 2013



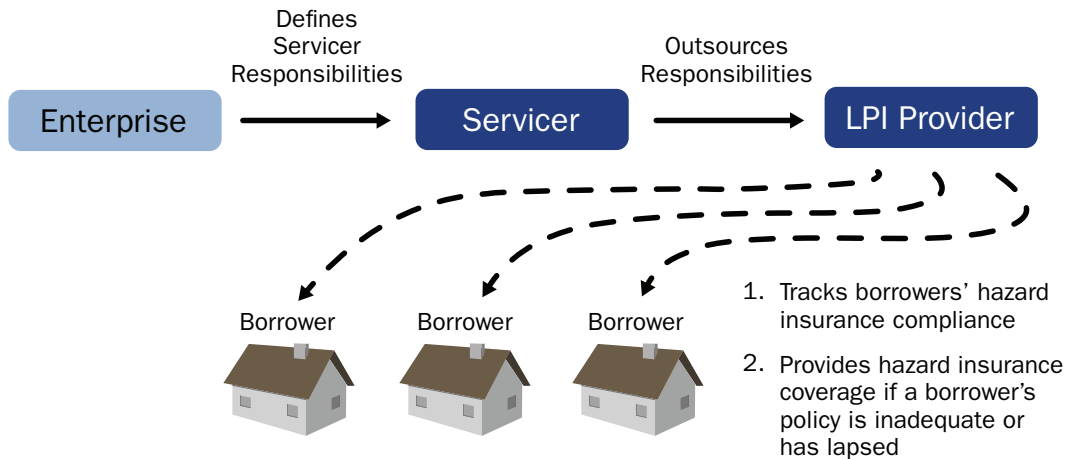
The increase in purchases directly from smaller financial institutions and nonbank mortgage companies presents the Enterprises with potential benefits and challenges. The shift in market share reduces the highly concentrated nature of the Enterprises' business with several large financial institutions. On the other hand, the shift may also increase the Enterprises' exposure to certain risks and raises their costs for counterparty risk management. For example, smaller and nonbank lenders may have relatively limited financial capacity, and the latter are not subject to federal safety and soundness oversight. Thus, the Enterprises face a potential increase in the risk that those counterparties could default on their financial obligations.

Recently, the Enterprises have taken a number of steps to mitigate these risks; OIG assessed FHFA's oversight of the Enterprises' new controls. In the report, OIG found that during 2013, FHFA conducted high-level examinations of the Enterprises' counterparty risk management and reviewed the risks associated with certain nonbanks' servicing operations. The Agency also began development of guidance intended to strengthen the Enterprises' counterparty risk management. However, OIG concluded that, due to other examination priorities, FHFA did not test and validate the effectiveness of the controls put in place by the Enterprises to address risks stemming from the increase in mortgage sales from smaller and nonbank lenders. OIG will continue monitoring the effectiveness of the Agency's efforts to oversee this issue.

FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs (EVL-2014-009, June 25, 2014)

The Enterprises require borrowers to maintain hazard insurance on their homes; this insurance safeguards the value of the homes in the event of a fire or other covered incident and thus preserves the Enterprises' security interests in the homes. When a servicer

Figure 3. Enterprise, Servicer, and LPI Provider Relationship



identifies a lapse in hazard insurance, it initiates new coverage known as lender-placed insurance (LPI) (see Figure 3, above). Borrowers are responsible for paying LPI premiums but do not always do so. When borrowers fail to make LPI payments, the servicers make the payments and attempt to recoup the costs. Ultimately, when a borrower defaults, the cost of unpaid LPI premiums is generally borne by the Enterprises. In 2012, the Enterprises paid approximately \$360 million in LPI premiums.

In this report, OIG found that several state insurance regulators had determined that LPI rates were excessive and had even concluded that rates may have been driven up by profit-sharing arrangements between servicers and LPI providers. Moreover, OIG concluded that the Enterprises may well have been harmed by excessive LPI rates.

OIG also found that FHFA had taken some steps to prevent profit-sharing arrangements between servicers and LPI providers. However, the Agency

had taken no steps to seek redress for any potential harm sustained by the Enterprises for excessive LPI premiums. The report noted that some homeowners had sought and obtained substantial settlements from LPI providers for excessive and unfair rates, and OIG concluded that the Enterprises were similarly

situated to these homeowners. Accordingly, OIG recommended that the Agency consider initiating litigation against servicers to remedy potential damages arising from abuses in the LPI market.

FHFA agreed to this recommendation.

Status of the Development of the Common Securitization Platform (EVL-2014-008, May 21, 2014)

The Common Securitization Platform (CSP) is very important to the future operations of the housing finance system. This report provides a primer on the CSP, updates on the project's status, and identifies certain challenges to the project's development and implementation.

In 2012, the Enterprises paid approximately \$360 million in LPI premiums.

The Enterprises support housing finance primarily by purchasing qualifying mortgages from lenders, packaging them into **mortgage-backed securities (MBS)**, and selling the securities to investors. The process of packaging mortgages into MBS is commonly referred to as securitization. The Enterprises' MBS issuances fluctuated from 2008 through 2013, ranging from a low of slightly more than \$850 billion in 2011 to more than \$1.2 trillion in both 2009 and 2012 (see Figure 4, below).

In 2012, the Agency concluded that the **back office systems** by which the Enterprises securitize mortgages were outmoded and in need of being immediately upgraded and maintained. Subsequently, FHFA, as conservator, directed the Enterprises to build the CSP to replace some parts of the Enterprises' back office systems.

FHFA assumed, but did not verify, that developing the CSP would be more cost-effective than requiring each Enterprise, individually, to pursue expensive upgrades to its back office systems. In addition, FHFA envisioned the CSP as a potential market

As of December 31, 2013, the Enterprises had spent approximately \$65 million developing the CSP.

utility and a way to maintain liquidity in the mortgage market that could outlive the Enterprises' current structures. In this respect, the Agency viewed the CSP as a means to support congressional and executive branch efforts to reform the nation's housing finance system.

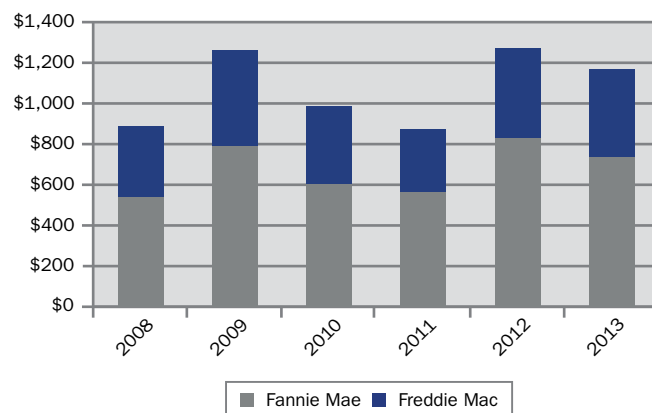
As of December 31, 2013, the Enterprises had spent approximately \$65 million developing the CSP.

While some progress has been made in developing the CSP, the project faces considerable

challenges that could undermine its prospects for success, including:

- The difficulties inherent in developing a large-scale information technology (IT) system. These difficulties are compounded by several factors, including: the number of parties involved in the development of the CSP (FHFA, Fannie Mae, Freddie Mac, and Common Securitization Solutions, LLC); the Enterprises' records of overseeing unsuccessful large-scale IT projects that failed to satisfy requirements, achieve stated goals in a timely manner, or stay on budget; and the fact that FHFA is a small regulator with multiple responsibilities and no prior experience in overseeing the development and implementation of large-scale IT projects.
- The risks involved with preparing the Enterprises to integrate with the CSP. The Enterprises must modify their internal financial and information systems to enable communication with the CSP. FHFA and Enterprise officials described the technical challenges associated with integration as significant and potentially costly.

Figure 4. Enterprise Single-Family MBS Issuances 2008 Through 2013 (\$ billions)



OIG found that FHFA had not fully employed two basic project management tools in its effort to develop the CSP, specifically: a comprehensive timeline and a total cost estimate for the project.

OIG recommended that FHFA: (1) establish schedules and time frames for the completion of key components of the project, as well as an overall completion date; and (2) establish cost estimates for varying stages of the initiative, as well as an overall cost estimate.

FHFA agreed with these recommendations.

FHFA's Oversight of the MPF Xtra Program (ESR-2014-007, April 22, 2014)

OIG commenced this study to review FHFA's oversight of a program established by the FHLBank of Chicago. This program, called Mortgage Partnership Finance (MPF) Xtra, was initiated in 2008. Under it, the FHLBank of Chicago purchases conforming fixed-rate residential mortgages from participating member banks across the FHLBank System. The FHLBank of Chicago sells those mortgages to Fannie Mae. The MPF Xtra program offers smaller banks—which do not have the volume of many GSE customers—the opportunity to sell mortgages to Fannie Mae at favorable rates. The FHLBank of Chicago earns a fee for its role in the process.

In its report, OIG noted that, while there were “unresolved issues related to the FHLBank of Chicago's quality assurance processes,” FHFA was aware of those issues and was actively overseeing the FHLBank of Chicago's efforts to remediate them. Included among the measures being taken under FHFA's supervision are the consolidation of risk management operations at the FHLBank of Chicago and an increase in the frequency of quality assurance reviews of the loans purchased for MPF Xtra. The report concluded that the MPF Xtra program was

not yet ripe for evaluation; however, OIG will monitor developments in the program and initiate future work as warranted.

Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks (EVL-2014-006, April 16, 2014)

This report noted a significant change in the business environment impacting the FHLBank System. Ordinarily, FHLBanks make loans—called “advances”—to their members. However, since the housing crisis of 2008, the FHLBanks' advance business had declined 62% by March 2012. Since that time, advances began a steep climb, largely due to advances to the four largest members of the FHLBank System.

The report reviewed the causes of the recent surge in advances to the four largest members and concluded that it was attributable, in large part, to new bank liquidity standards established by the Basel Committee on Banking Supervision in December 2010. As detailed in the report, under the new standards banks are required to increase their holdings of high-quality liquid assets, such as the Department of the Treasury (Treasury) securities. In order to meet the new standards, some banks have taken FHLBank advances in order to purchase the more liquid securities required.

The report noted advantages and risks inherent in the business environment caused by the Basel Committee's new standards. In particular, while OIG acknowledged the advantage of this increase to the FHLBanks' core business activity, it noted that an increase in advances caused by matters unrelated to housing could call into question the FHLBanks' housing mission.

OIG recommended that the Agency publicly report on FHLBank advances to large and other members in 2014, emphasizing the consistency of such advances

with the safety and soundness of the FHLBank System, as well as the FHLBanks' housing mission.

FHFA agreed with the recommendation.

Audits

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program – 2014 (AUD-2014-021, September 30, 2014)

In accordance with the provisions of the Federal Information Security Management Act of 2002 (FISMA), FHFA, inclusive of OIG, is subject to annual independent evaluations of its information security program. OIG contracted with an independent public accounting firm, Kearney & Company, to perform separate FISMA evaluations of FHFA's and OIG's information security programs, since FHFA and OIG maintain separate IT infrastructures. This audit focused on the OIG program, and the objective was to evaluate OIG's information security program and practices, including compliance with FISMA and related information security policies, procedures, standards, and guidelines. Because information in this report could be abused to circumvent OIG's **internal controls**, it has not been released publicly.

CliftonLarsenAllen, LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program – 2014 (AUD-2014-020, September 26, 2014)

Section 522 of the Consolidated Appropriations Act of 2005 requires the inspector general of each agency to periodically conduct a review of the agency's implementation of the requirements of Section 522, including the agency's privacy program. OIG contracted with CliftonLarsenAllen to perform this audit. The objective of this audit was to assess the FHFA privacy program and implementation,

including compliance with associated statutory and regulatory requirements concerning protection of personal identifying information (PII). Specifically, the audit determined whether FHFA implemented comprehensive privacy and data protection procedures and accurately reported on its use of privacy information. Because information in this report could be abused to circumvent FHFA's internal controls, it was not released publicly.

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2014 (AUD-2014-019, September 26, 2014)

FISMA requires the inspector general of each agency to annually conduct an independent evaluation of the agency's information security program. OIG contracted with Kearney & Company to perform this audit. Accordingly, the objective of this audit was to evaluate FHFA's information security program and practices, including compliance with FISMA and related information security policies, procedures, standards, and guidelines. Because information in this report could be abused to circumvent FHFA's internal controls, it was not released publicly.

FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018, September 26, 2014)

The Enterprises use a delegated business model to buy and service mortgage loans. They contract with third-party mortgage loan sellers and/or servicers (such as banks) and rely on them to comply with requirements for: (1) originating loans that the Enterprises buy; (2) servicing the purchased loans (e.g., collecting payments); and (3) reporting data about the loans. The Enterprises rely on the counterparties for compliance and reporting, and thus run the risk of counterparties failing to meet selling and servicing guidelines. Assurance

regarding compliance with selling requirements is particularly important in light of new limits on how long Fannie Mae and Freddie Mac have to perform quality control activities on loans being acquired and to make decisions about whether sellers need to repurchase noncompliant loans. As such, increased reliance is being placed on controls at the sellers. To better assess the operational and financial risks posed by these counterparties, OIG reviewed FHFA's oversight of how the Enterprises ensure their counterparties comply with their requirements.

OIG concluded that the Enterprises could require independent assurance that counterparties are complying with their selling and servicing requirements as a complement to other monitoring controls already in place. As examples of best practice, federal agencies involved in the mortgage market, such as the SEC and HUD, and private investors in MBS commonly require independent assurance of counterparty compliance. Also, in December 2013, one Enterprise's internal audit function proposed using independent, third-party attestations of compliance with selling and servicing guidelines, but the merits of the proposal were not assessed by either the Enterprise or FHFA.

OIG recommended that FHFA direct the Enterprises to assess a risk-based approach to having their counterparties obtain independent, third-party attestations of their compliance with origination and servicing requirements to increase assurance that the \$4.8 trillion in Enterprise-owned and -guaranteed mortgages are appropriately originated and serviced. Such attestations could complement, but not replace, Fannie Mae's and Freddie Mac's onsite reviews and other performance monitoring controls. The attestations can be implemented in a manner that balances their cost-benefit with a given counterparty's size, complexity, performance, and other factors.

FHFA did not agree with OIG's recommendation. OIG is requesting that FHFA reconsider its

disagreement with the recommendation and submit a revised response.

FHFA Oversight of Freddie Mac's Information Technology Investments (AUD-2014-017, September 25, 2014)

FHFA, under its supervisory and regulatory authorities regarding Freddie Mac, has a continuous examination program that encompasses Freddie Mac's IT infrastructure. Freddie Mac annually makes substantial investments to maintain and improve its IT infrastructure, which is vital to its mission of helping to provide liquidity, stability, and affordability in the nation's housing market. In fact, Freddie Mac maintains an IT investment portfolio of over 250 individual projects. OIG conducted this audit to evaluate FHFA's oversight of Freddie Mac's IT investment management processes.

Overall, OIG found that FHFA could improve its oversight of IT investments at Freddie Mac. FHFA approves Freddie Mac's annual operating budget but does not specifically review and approve the IT component of the budget, or review and approve individual IT projects unless an investment would constitute a significant change to Freddie Mac's operations. FHFA has limited assurance that Freddie Mac has implemented and enforces effective IT investment management practices and processes. Thus, supervisory review of Freddie Mac's entire IT investment management process is even more important to protect FHFA's interests as there is no corresponding conservatorship control to assess IT investments at the portfolio level.

OIG recommended that FHFA: (1) conduct a comprehensive examination to determine whether Freddie Mac has implemented and enforces an effective IT investment management process; (2) develop and issue Enterprise IT investment management guidance; and (3) evaluate whether Freddie Mac reports currently used by FHFA

examiners provide the information necessary to conduct effective supervisory monitoring of Freddie Mac's portfolio of IT investments. The Agency generally agreed with the recommendations.

FHFA's Representation and Warranty Framework (AUD-2014-016, September 17, 2014)

In June 2011, FHFA initiated the Contract Harmonization Project to improve the Enterprises' contracts and contracting processes with seller/servicers to maximize seller/servicer performance and, thus, economic return on the Enterprises' loan portfolios. The new representation and warranty framework is a component of the Contract Harmonization Project that FHFA prioritized and implemented in September 2012. The framework's objective is to clarify seller repurchase exposure and liability on future loans sold to the Enterprises. The new framework relieves sellers from certain representations and warranties, such as those relating to credit **underwriting** and eligibility of the borrower and property that were formerly effective for the life of the loan. Given this elevated risk from the new framework and the financial magnitude of loans involved, OIG audited FHFA's oversight of the Enterprises' implementation of the new representation and warranty framework.

In spite of the additional responsibility now borne by the Enterprises to check the quality of acquired loans earlier, OIG identified several weaknesses in the adopted framework. First, FHFA mandated this new framework despite significant unresolved **operational risks** to the Enterprises; neither Enterprise had implemented the processes, procedures, and systems needed to operate

within the new framework before it went into effect in 2013. Second, FHFA's analysis was not robust enough to consider additional risks of moving to the new framework. For example, the Agency mandated a 36-month sunset period for representation and warranty relief without validating the Enterprises' analyses or performing sufficient additional analysis needed to appropriately balance financial risk between the Enterprises and sellers. Finally, FHFA did not analyze the costs and benefits to determine whether the 36-month period would result in an economic return to the Enterprises.

OIG recommended that: (1) FHFA assess whether the Enterprises' current operational capabilities minimize financial risk that may result from the new framework; and (2) FHFA assess whether the financial risks associated with the new framework, including the sunset periods, are balanced between the Enterprises and the sellers. FHFA provided responsive comments to the first recommendation; however, they disagreed with the second recommendation. OIG has requested that FHFA reconsider its disagreement with the second recommendation.

FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices (AUD-2014-015, August 7, 2014)

Fannie Mae and its servicers closed over 210,000 short sales in a three-year period.

Short sales are part of Fannie Mae's loss mitigation strategy to help minimize the severity of losses it incurs due to loan defaults. Fannie Mae and its servicers closed over 210,000 short sales in a three-year period. OIG initiated this report to look at the effectiveness of FHFA's oversight and Fannie Mae's controls over delegated servicers

to ensure that net proceeds from short sales met the minimum amount authorized by Fannie Mae.

Fannie Mae determined that 4,883 short sale transactions were potentially closed in violation of servicer delegations of authority between August 2010 and December 2013. The violation was in regard to the net proceeds from the sales, which were less than the authorized minimum net reserve (MNR) established by Fannie Mae. Of the 4,883 transactions, Fannie Mae determined that only 2,434 should be included in a remediation plan; the total MNR shortfall for the 2,434 transactions was \$16,955,656. Nearly half of these transactions were removed for one of three reasons: (1) they would have been approvable if properly submitted to Fannie Mae for approval; (2) they had already been remedied through a make whole agreement or repurchase; or (3) they had actually received Fannie Mae review prior to the sale.

Fannie Mae then applied a series of four exclusions to the 2,434 short sale transactions. The exclusions further reduced the number of transactions for an indemnification demand to 453, with a total MNR shortfall of \$10,818,979 (see Figure 5, above). Despite Fannie Mae’s authority to require indemnification for each transaction with an MNR shortfall, a decision was made to exclude 1,740 transactions with MNR shortfalls of \$6,136,677 plus 241 transactions where an MNR value was not obtained by the servicer.

Fannie Mae furnished OIG with a revised remediation plan just prior to the release of this report; that plan removed delegated transactions erroneously included for remediation, yet the methodology remained substantially unchanged from the initial version, which was this report’s basis. Further, the revised plan did not address potential shortfalls in non-delegated short sale transactions where Fannie Mae retains approval authority.

Figure 5. Fannie Mae Recommended Exclusions to Remediation Plan

Category	Loan Count	Indemnification Amount
Population Included in Fannie Mae’s Remediation Plan	2,434	\$16,955,656
1. Harm Below Tolerable Threshold	(943)	(\$1,165,930)
2. Meets National Servicing Organization Non-Delegated Criteria	(652)	(\$3,377,674)
3. Meets Real Estate Asset Management Non-Delegated Criteria	(145)	(\$1,593,073)
4. Proceeds Exceed Estimated MNR	(241)	\$-
Perceived Harm to Fannie Mae	453	\$10,818,979

Fannie Mae went to considerable lengths to demonstrate why it should not pursue servicer noncompliance rather than emphasize the importance of established controls. Additionally, Fannie Mae did not fully address this lack of servicer compliance through consideration of penalties, including, for example, interest on shortfalls collected and recoupment of incentive fees for completing short sale transactions.

OIG made three recommendations, including that FHFA: (1) communicate a written supervisory expectation to Fannie Mae requiring that its business units perform a review of non-delegated short sale transactions to identify any transactions where the servicer submitted net proceeds that were less than the sale amount approved by Fannie Mae and draft a remediation plan, as appropriate; (2) communicate a written supervisory expectation to Fannie Mae requiring its internal audit group to review Fannie Mae’s plan to collect funds for delegated and

non-delegated short sale transactions where the net proceeds received were less than the amounts authorized by Fannie Mae; and (3) analyze Fannie Mae's actions and remediation plans regarding delegated and non-delegated short sale transactions to determine whether Fannie Mae has taken necessary steps to ensure that servicers are held accountable for servicing violations and credit losses are minimized, including by assessing appropriate penalties and recouping incentive fees paid for improperly closed short sale transactions.

FHFA agreed with OIG's recommendations and is taking responsive action.

FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages (AUD-2014-014, July 1, 2014)

As part of a review of problems FHFA identified with a nonbank special servicer, OIG initiated this performance audit to assess FHFA's controls to ensure the Enterprises monitor nonbank special servicer performance and mitigate related risks. Banks that traditionally service mortgage loans backed by the Enterprises have been selling the rights to service troubled loans in bulk to new companies specialized to handle them. Nonbank special servicers currently hold approximately \$1.4 trillion in mortgage servicing rights (MSR) out of a nearly \$10 trillion market. These new servicers have less stringent regulatory and financial requirements than banks; this poses additional risk to the Enterprises.

Overall, OIG concluded that while FHFA and the Enterprises have responded well to specific

problems at nonbank special servicers, the Agency has not established a risk management process or overall oversight framework to handle some general risks posed by nonbank special servicers. As an example, one nonbank special servicer used short-term financing to acquire servicing rights on a large volume of Enterprise-backed, troubled mortgage loans. Unfortunately, it lacked adequate infrastructure to handle the loans and had limited credit availability, which led to consumer complaints, increased risk in funding its operations, and delayed payments to the Enterprises. Using short-term financing to buy servicing rights for troubled mortgage loans is risky, as the rights may only begin to pay out after long-term work is performed to resolve the difficulties. This practice can jeopardize the servicers' operations and the Enterprises' reputation for timely payment guarantees.

OIG recommended that FHFA issue guidance on a risk management process for nonbank special servicers and develop a comprehensive, formal oversight framework to examine and mitigate the risks these nonbank special servicers pose.

FHFA generally agreed with OIG's recommendations and is taking responsive action.

CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers (AUD-2014-013, May 8, 2014)

OIG contracted with CohnReznick LLP to conduct this performance audit of FHFA's oversight of the financial condition of the mortgage insurers used on loans purchased by the Enterprises and their

Nonbank special servicers currently hold approximately \$1.4 trillion in MSR out of a nearly \$10 trillion market.

risk exposure. The Enterprises are restricted by their charters to purchase only loans with loan-to-value ratios over 80% if the loans include a form of credit enhancement. The Enterprises typically require mortgage insurance underwritten by private mortgage insurers as a credit enhancement to reduce the amount of loss in the event of borrower default. As of June 30, 2013, the Enterprises held over \$587 billion in single-family residential mortgage loans insured by private mortgage insurance companies.

CohnReznick concluded that FHFA has opportunities to further strengthen its oversight of the Enterprises' monitoring of the financial condition of private mortgage insurers and their related risk exposure. First, FHFA can better coordinate oversight of the risk posed by mortgage insurers in a weakened financial condition through issuance of a formal oversight plan that defines the roles and responsibilities of the various FHFA components and the Enterprises. As of June 30, 2013, these distressed mortgage insurers were potentially responsible for over one-third of the mortgage insurance coverage provided to both Enterprises.

Second, FHFA can improve its oversight of the approval of new mortgage insurers. CohnReznick determined that FHFA delegated the approval decision for a new mortgage insurer to the Enterprises. Such delegated approval is limited to counterparties where there are no reasonably foreseeable material increases in operational risk, which is generally not the case for a new mortgage insurer. Additionally, FHFA does not have a formal process for evaluating new mortgage insurers, including Enterprise risk assessments and justification for conditional approval requirements.

CohnReznick recommended that FHFA take the following actions: (1) establish policies, procedures, and processes to execute FHFA's oversight of the Enterprises' monitoring of business conducted with mortgage insurers; (2) develop specific criteria,

and update the letter of instruction accordingly, that classifies new mortgage insurers as non-delegated activities that require FHFA approval; and (3) develop a methodology for FHFA's review of new mortgage insurers and ensure procedures performed are adequately documented and support the conclusions reached during the review.

FHFA is taking action that is generally responsive to CohnReznick's recommendations.

Recommendations

A complete list of OIG's audit and evaluation recommendations is provided in Appendix B.

Civil Fraud Initiative

OA launched its Civil Fraud Initiative in June 2013. OA, with support from OI and the Office of Counsel (OC), conducts civil fraud reviews (also known as nonaudit services) to identify fraud and make referrals for civil actions and administrative sanctions against entities and individuals who commit fraud against FHFA, Fannie Mae, Freddie Mac, or the FHLBanks.

Currently, OA is working with various Assistant U.S. Attorneys on reviews of lenders' loan origination practices to determine their compliance with Enterprise requirements. Lenders are considered for review through the use of data-mining techniques and requests from government agencies.

Suspension of Counterparties Referrals

FHFA's Suspended Counterparty Program is intended to "protect the safety and soundness of the regulated entities" by means of "a process for FHFA to issue suspension orders directing the regulated entities to cease or refrain" from doing business with counterparties (and their affiliates) who have

“engaged in covered misconduct.” For purposes of the program, covered misconduct means:

Any conviction or administrative sanction within the past three (3) years if the basis of such action involved fraud, embezzlement, theft, conversion, forgery, bribery, perjury, making false statements or claims, tax evasion, obstruction of justice, or any similar offense, in each case in connection with a mortgage, mortgage business, mortgage securities or other lending product.

For the reporting period April 1, 2014, through September 30, 2014, OIG made 53 referrals to FHFA’s Office of General Counsel, which reviews them and issues suspensions when appropriate.

Audit and Evaluation Plan

OIG maintains an Audit and Evaluation Plan that focuses strategically on the areas of FHFA’s operations that pose the greatest risks to the Agency and the GSEs. The plan responds to current events and feedback from FHFA officials, members of Congress, and others. The plan is available for inspection at www.fhfaig.gov/Content/Files/AuditAndEvaluationPlan.pdf.

Peer Reviews

All offices of inspectors general are required to implement and maintain a system of quality control for their audit and investigative operations. The system of quality control encompasses an office of inspector general’s leadership, with an emphasis on performing high-quality work that is compliant with required standards.

Audit organizations that perform audits of federal government programs and operations are required by *Generally Accepted Government Auditing Standards*

to undergo an external peer review every three years. The objectives of an external peer review are to determine, during the period under review, whether: (1) the audit organization’s system of quality control was suitably designed; and (2) the audit organization was complying with its own quality control system to provide reasonable assurance that it was conforming to applicable professional standards. Federal audit organizations can receive a peer review rating of pass, pass with deficiencies, or fail.

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) established the Quality Assurance Review (QAR) program, an independent peer review process of the investigative operations of offices of inspectors general. The overall objectives of the QAR program are to: (1) ensure that the general and qualitative standards adopted by offices of inspectors general comply with CIGIE’s *Quality Standards for Investigations*; and (2) determine whether adequate internal control systems and management procedures exist to ensure that the law enforcement powers conferred by the Inspector General Act, as amended, are in place and operating effectively to provide reasonable assurance that an office of inspector general is complying with professional investigative standards, as well as other requirements. In conducting a QAR, a peer review team will render an opinion on the adequacy of a given office of inspector general’s internal safeguards, management procedures, and quality control in connection with compliance with the Inspector General Act, CIGIE’s *Quality Standards for Investigations*, and law enforcement powers. An office of inspector general will receive a QAR rating of compliant or noncompliant.²

The Inspector General Act, as amended by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank)**, mandates that offices of inspectors general report semiannually the results of peer reviews of their operations conducted by other offices of inspectors general, the

date and results of the last peer review, outstanding recommendations from peer reviews, and peer reviews conducted by the inspector general of another office of inspector general. Peer reviews of federal offices of inspectors general are conducted by member organizations of CIGIE.

- ***The results of any peer review conducted by another office of inspector general during the reporting period.*** In compliance with the Inspector General Act, as amended, OIG reports that the Department of Education Office of Inspector General conducted a QAR of OIG’s OI and issued an opinion letter on August 25, 2014. OI received a rating of compliant. The Department of Education Office of Inspector General found that OI’s system of internal safeguards and management procedures in effect as of June 30, 2014, provided reasonable assurance of conforming to professional standards in the planning, execution, and reporting of OIG’s investigations. A copy of the opinion letter can be viewed on OIG’s website at [www.fhfaoig.gov/Content/Files/FHFA-OIG investigations peer review.pdf](http://www.fhfaoig.gov/Content/Files/FHFA-OIG%20investigations%20peer%20review.pdf).

OA was not required to undergo an external peer review during this reporting period. The most recent peer review of OA was completed by the Federal Communications Commission Office of Inspector General (FCC-OIG) on March 20, 2014. OIG received a peer review rating of pass, the best rating an audit organization can receive. FCC-OIG identified one enhancement in a

Letter of Comment accompanying its System Review Report, and OIG completed action on this enhancement on June 4, 2014. Copies of the System Review Report and Letter of Comment can be viewed at www.fhfaoig.gov/Content/Files/FHFA-OIG%20audit%20peer%20review_0.pdf.

- ***Outstanding recommendations from any peer review conducted by another office of inspector general that have not been fully implemented, including a statement describing the status of the implementation and why implementation***

is not complete. There are no outstanding recommendations from FCC-OIG’s external peer review of OIG’s audit organization. We completed corrective action on June 4, 2014, for the sole recommendation in FCC-OIG’s Letter of Comment.

- ***Ongoing OIG audit peer review activity.*** OIG completed a peer review of the audit operations of the Legal Services Corporation Office of Inspector General (LSC-OIG) during this reporting period and issued a final System Review Report on September 5, 2014.

OIG reported that in our opinion, except for the deficiencies identified, the system of quality control for the audit organization of LSC-OIG in effect for the year ended March 31, 2014, had been suitably designed and complied with to provide LSC-OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. LSC-OIG received a peer review rating of pass with deficiencies.

***OI received
a rating of
compliant —
the best rating
an investigations
organization
can receive.***

As is customary, OIG also issued a Letter of Comment, dated September 5, 2014, that set forth findings and recommendations that were not considered to be of sufficient significance to affect our opinion expressed in the System Review Report.

OIG made seven recommendations in the System Review Report. LSC-OIG agreed to complete corrective action no later than December 31, 2014. LSC-OIG has posted its peer review report on its website at www.oig.lsc.gov/org/System%20Review%20Report%20-%202014%20Peer%20Review%20of%20LSC%20OIG.pdf.

Investigations

During the semiannual period, OIG investigators participated in numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 121 individuals and the conviction of 67 individuals. In many of these investigations, we worked with other law enforcement agencies, such as the Department of Justice (DOJ), the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Postal Inspection Service (USPIS), the FBI, the Department of Housing and Urban Development Office of Inspector General (HUD-OIG), the Secret Service, IRS-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide. Further, in several investigations, OIG investigative counsels were appointed as Special Assistant U.S. Attorneys and supported prosecutions. Figure 6 (see above) summarizes the criminal and civil recoveries from our investigations. Although most of these investigations remain confidential, details about several of them have been publicly disclosed and are summarized in the following section.

Figure 6. Criminal and Civil Recoveries from April 1, 2014, Through September 30, 2014

	Criminal Recoveries	Civil Recoveries
Fines ^a	\$41,134,082	\$1,268,491,770
Settlements	\$-	\$23,650,000,000
Restitutions	\$312,094,553	\$-
Total	\$353,228,635	\$24,918,491,770

^a Fines include criminal fines, seizures, forfeiture and special assessments, and civil fines imposed by federal court.

Fraud Committed Against the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category involved multiple schemes that targeted Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

Fraud at Failed FHLBank Member, San Diego, California

On September 12, 2014, in the U.S. District Court for the Southern District of California, Laura Ortuondo was sentenced to 36 months' probation, 12 months' home confinement, and ordered to pay a fine of \$3,000. Previously, on May 1, 2014, Ortuondo had pled guilty to one count of making false statements to federal agents.

In 2008, Ortuondo worked for a local small business owner named Annand Sliuman (who previously pled guilty in a separate case). In her role as Sliuman's assistant, Ortuondo, among other things, helped Sliuman manage loans and loan applications with La Jolla Bank. In May 2008, Ortuondo assisted Sliuman in fraudulently obtaining a \$1.8 million loan from La Jolla Bank by knowingly submitting fraudulent tax forms to the bank.

La Jolla Bank was a member of the FHLBank of San Francisco until February 2010, when it failed and was taken over by the Federal Deposit Insurance

Corporation (FDIC). At the time of failure, La Jolla Bank had outstanding debt of approximately \$1 billion, including approximately \$700 million in outstanding advances from the FHLBank of San Francisco.

After assisting Sliuman in defrauding La Jolla Bank, Ortuondo undertook a nearly five-year-long effort to thwart the federal government's investigation of the fraud. The cover-up began in October 2008, when Ortuondo lied to investigators and claimed that she was unaware that she had submitted false documents to the bank. Shortly after lying about her knowledge of the fraud, Ortuondo assisted Sliuman in destroying Ortuondo's personal laptop, knowing that it contained incriminating evidence of their fraud.

Ortuondo proceeded to convince her then-husband to lie to federal agents and a federal grand jury on her behalf, claiming—falsely—that he had destroyed her laptop. In November 2011, Ortuondo again lied to federal agents about her role in the fraud and asserted that her ex-husband was the one who had destroyed her laptop.

This was a joint investigation with the FBI, IRS-CI, the Small Business Administration Office of Inspector General (SBA-OIG), Treasury Inspector General for Tax Administration, and the U.S. Attorney's Office for the Southern District of California.

Conviction in Identity Theft Involving Fannie Mae Insider, Dallas, Texas

On September 9, 2014, a federal jury in the U.S. District Court for the Northern District of Texas (Dallas) convicted Anthony Minor on all nine counts of an indictment, including one count of conspiracy to commit bank fraud, five counts of bank fraud, one count of using or trafficking in an unauthorized

access device, and two counts of aggravated identification theft.

Between October 2009 and July 2013, Minor and his co-conspirator, Tilisha Morrison, led this conspiracy, which resulted in the theft of PII of over 1,000 Fannie Mae customers and others, and caused monetary damages to the involved financial institutions, including JPMorgan Chase and Bank of America. As part of the conspiracy, Minor and Morrison purchased PII that former Fannie Mae employee Katrina Thomas illegally obtained in the course of her employment. Minor and Morrison then utilized other co-conspirators to misuse this PII to commit bank fraud. Morrison and Thomas have already pled guilty and are awaiting sentencing for their roles in this matter.

This is a joint investigation with the Secret Service and the Dallas County District Attorney's Office.

Loan Officer Sentenced in Ponzi Scheme, St. Louis, Missouri

On August 19, 2014, in the U.S. District Court for the

Eastern District of Missouri, Daniela Spiridon was sentenced to 78 months in prison and ordered to pay \$2,499,988 restitution and a fine of \$5,000.

Spiridon was formerly a loan officer for Equity One Mortgage in St. Louis. In 2010, she left Equity One Mortgage and began operating under the name Proficio Mortgage and other various business and bank names. From 2010 to 2012, Spiridon scammed individuals by falsely purporting to have contracts with Fannie Mae and banking institutions to sell packages of **real estate owned (REO)** properties as well as individual foreclosed properties on their behalf. She did so by presenting fictitious documents purporting to be from Fannie Mae. She told

Federal jury finds Anthony Minor guilty.

individuals that if they put more money down, it was more likely Fannie Mae would select them as a buyer, and then required them to wire earnest money for individual and bundled Fannie Mae and other foreclosed properties. Spiridon obtained large down payments (hundreds of thousands of dollars) from investors/victims who thought they were paying for bundled packages of various foreclosed properties.

Spiridon failed to deliver the properties to the investors and admitted she had no connection with the properties. After realizing they had been defrauded, investors and home buyers requested their money back. Spiridon made partial payments to previous investors with money she received from newly defrauded investors. Since 2011, Spiridon received over \$4 million from her real estate Ponzi scheme and caused losses of over \$2.4 million. Spiridon agreed to forfeit money and assets purchased as a result of the illegal activity, including two Mercedes-Benz vehicles and a \$50,000 bond.

This was a joint investigation with the FBI and USPIS.

Computer Intrusion at Fannie Mae, Virginia

On July 10, 2014, Sathish Kumar Chandhun Rajendran pled guilty in the U.S. District Court for the Eastern District of Virginia to an information alleging unauthorized access to a protected computer and causing damage to such computer.

From August 2010 until August 2013, Rajendran worked at Fannie Mae as an IT term employee and was assigned to the development of the CheckMyNPV.com website. Operated by Fannie Mae under the auspices of the Making Home Affordable Program, the online tool on this website allowed citizens to determine the net present value of their homes and check their eligibility to participate in the Home Affordable Modification Program (HAMP), a federal program designed to avoid mass **foreclosures**.

After being terminated from employment at Fannie Mae in August 2013, Rajendran repeatedly used administrator credentials to log into government servers and make unauthorized changes to the CheckMyNPV website, including disabling the website's online tool for checking HAMP eligibility. As a result of these actions, Rajendran caused damage and loss to Fannie Mae in the amount of approximately \$69,000.

This is a joint investigation with SIGTARP; Fannie Mae's Investigations Unit provided exceptional assistance as well.

Unlicensed Appraiser/Identity Theft Scheme, Washington State

On June 13, 2014, Diana Merritt and Douglas White were charged by an information filed in the King County Superior Court of Washington alleging identity theft and mortgage fraud.

From May 2007 to June 2014, White allegedly used the fraudulently obtained identity of a licensed appraiser to prepare real estate appraisals. White, who was not a licensed appraiser himself, prepared the appraisals under the name and state license number of "Tom Reed." Merritt, president/loan officer at Merit Home Finance, Inc. and longtime girlfriend of White, participated in the scheme by steering appraisal business to White knowing that he was not a licensed appraiser. Between 2009 and 2012, White submitted over 400 appraisals for use in mortgage loans using the stolen identity of "Tom Reed," with at least 21 of these appraisals being part of mortgages sold to the Enterprises. White was still conducting appraisals at the time of his arrest. Losses to the Enterprises have not yet been determined.

This is a joint investigation with HUD-OIG and the King County (Washington) Prosecuting Attorney's Office.

Multifamily Scheme, Benton, Illinois

On May 6, 2014, Maximus Yaney and Jamie Bray were indicted by a grand jury sitting in the U.S. District Court for the Southern District of Illinois alleging one count of bank fraud, one count of wire fraud, and a forfeiture allegation.

From April 2007 through February 2010, Yaney and Bray allegedly knowingly devised and engaged in a scheme to defraud Washington Mutual Bank and Greystone Bank.

As part of the alleged scheme, Yaney flipped Marshall Reed Apartments by using a straw company he controlled called HG Capital, LLC to sell to another company he owned called Titan, LLC. Yaney, along with Bray, inflated the sale price and used false rent rolls and leases to obtain an \$8.4 million loan. Yaney and Bray then used the false rent rolls and leases to obtain long-term financing with a Fannie Mae multifamily loan. False information was submitted to Greystone Servicing Corporation, Inc., a Fannie Mae delegated underwriting service, to obtain an \$8.1 million refinance loan, along with false financials submitted to Greystone Bank to obtain an additional \$300,000 gap loan.

It is alleged that Yaney and Bray caused over \$6.8 million in losses to Fannie Mae and over \$1.2 million in losses to Greystone Servicing. A forfeiture allegation was also charged against \$6.1 million that Yaney allegedly received in proceeds from the scheme.

This is a joint investigation with the FBI.

*Maximus Yaney
and Jamie Bray
indicted by a
grand jury for
allegedly causing
over \$6.8 million
in losses to
Fannie Mae.*

Property Management and REO Schemes

The wave of foreclosures following the housing crisis left the Enterprises holding a large inventory of REO properties. To minimize losses associated with REO, the Enterprises rely heavily on contractors to secure, maintain and repair, price, and ultimately sell their properties. In a property management scheme, contractors overbill for work performed or bill for work not performed.

Fannie Mae Employee Receives Kickback in Exchange for

Listings, Los Angeles, California

On August 4, 2014, in the U.S. District Court for the Central District of California, Armando Granillo was sentenced to 15 months in prison, to be followed by 6 months in a halfway house and 3 years of supervised release. Granillo was previously found guilty after a jury trial in Santa Ana, California.

From November 2012 to March 2013, Granillo, a former foreclosure specialist/REO sales associate for Fannie Mae, attempted to enrich himself by soliciting payments of at least \$11,000 in exchange for favorable action. Granillo offered to increase the number of REO listings assigned to particular realtors in exchange for 20% of the real estate sales commission received at closing when the properties sold. After a monitored meeting in which Granillo solicited an \$11,200 kickback, he was arrested and found in possession of the funds.

Property Preservation Fraud Sentencing, Florida

On May 29, 2014, in the U.S. District Court for the Middle District of Florida, Tammy Roderick

was sentenced to 33 months' incarceration, to be followed by 3 years of supervised release, and ordered to pay \$2,396,498 in restitution. Roderick had previously pled guilty to conspiracy to commit wire fraud. The restitution was ordered joint and several with co-defendant Dean Counce, former president of American Mortgage Field Services, LLC (AMFS). The sentencing order prohibited Roderick from working in the property preservation industry.

From at least March 2007 through December 31, 2009, Roderick was in a managerial position at AMFS. In that position she conspired with Counce and other AMFS employees to oversee the submission of thousands of fraudulent property inspection reports to Bank of America for which AMFS was paid but never actually conducted. Under the terms of its servicing agreements with the Enterprises and the **Federal Housing Administration (FHA)**, Bank of America would contract with companies such as AMFS and pay them for this and additional property preservation services. Bank of America would then submit claims for reimbursement to the Enterprises and FHA for the services rendered during the foreclosure process.

Due to high foreclosure rates in the state of Florida caused by the mortgage crisis, AMFS employees, some of whom were under the direction of Roderick, began to falsify an increasing number of these property inspections. Ultimately, at least half of the property inspections submitted to Bank of America on a monthly basis were fabricated.

This was a joint investigation with HUD-OIG and the Secret Service.

Condo Conversion and Builder Bailout Schemes

These schemes begin with sellers or developers seeking out investors with good credit who want low-risk investment opportunities. Investors are offered deals on properties with no money down and other lucrative incentives, such as cash back and guaranteed and immediate rent collection. To fund these incentives, the sellers use complicit appraisers to inflate the sales price. The incentives are not disclosed to lenders, who are defrauded into making loans far exceeding property values. When the properties go into foreclosure, lenders suffer large losses.

Eight pled guilty in a straw buyer scheme.

Eight Pled Guilty and Three Sentenced, Miami, Florida

On September 26, 2014, in the U.S. District Court for the Southern District of Florida, the following individuals were sentenced:

- Alfredo Chacon was sentenced to 31 months' incarceration, 3 years' supervised release, and ordered to pay \$1,531,438 in restitution.
- Francisco Martos was sentenced to 30 months' incarceration, 3 years' supervised release, and ordered to pay \$393,751 in restitution.
- Dorian Magarino was sentenced to 24 months' incarceration and 3 years' supervised release.

On August 14 and August 15, 2014, in the same court, Luis Michael Mendez and Wilkie Perez, respectively, pled guilty to one count each of conspiracy to commit bank and wire fraud.

On May 15, 2014, in the same court, Leidy Masvidal, Chacon, Martos, and Magarino each pled guilty. Masvidal pled guilty to one count each of

conspiracy to commit bank fraud, bank fraud, and structuring financial transactions. Chacon, Martos, and Magarino each pled guilty to conspiracy to commit bank fraud, wire fraud, and mail fraud.

On May 14, 2014, in the same court, Douglas Ponce and Tania Masvidal each pled guilty to an information that charged them with one count of conspiracy to commit bank fraud.

On May 2, 2014, in the same court, Leidy Masvidal was charged with one count of bank fraud and one count of conspiracy to commit bank fraud and Tania Masvidal was charged with one count of conspiracy to commit bank fraud.

On April 29, 2014, in the same court, Chacon, Martos, Magarino, and Ponce were charged via an information with conspiracy to commit wire fraud.

Between mid-2006 and continuing through 2010, Chacon, Martos, Magarino, and Ponce allegedly conspired with Luis Mendez (father), Luis Michael Mendez (son), Stavroula Mendez, Michael Mendez, Marie Mendez, and/or Perez to recruit **straw buyers** whom they knew were unqualified to obtain mortgages and facilitated the approval of loan applications through contacts at different mortgage brokers. The Masvidals also recruited straw buyers. Ponce and Chacon allegedly paid straw buyers kickbacks for purchasing condominium properties and participating in the scheme. Eventually, the conspirators were unable to make mortgage payments, causing many of the condos to go into foreclosure and leading to losses by the lenders. The loss exposure to Fannie Mae and Freddie Mac is \$5,216,873.14 and \$5,646,264.02, respectively. In total, the scheme caused losses to the Enterprises and other financial institutions of over \$20 million.

This is a joint investigation with HUD-OIG.

Plea in Condo Conversion Scheme, Chicago, Illinois

On September 12, 2014, in the U.S. District Court for the Northern District of Illinois, Olabode Rotibi was sentenced to 24 months' imprisonment, 2 years' supervised release, and joint and several restitution in the amount of \$1.82 million.

On April 4, 2014, in a trial held in the same court, James Vani was found guilty by a jury; he was convicted on two counts of wire fraud.

From 2007 to 2008, Vani, a licensed loan officer, prepared loan applications containing misrepresentations as part of a mortgage fraud scheme to sell condominium units at 1351 N. Ashland Ave, Chicago, Illinois. The misrepresentations in straw buyer loan applications led to lenders approving loans they would not normally approve. Rotibi was a licensed appraiser who produced fraudulent appraisal reports as part of this mortgage fraud scheme.

This is a joint investigation with the U.S. Attorney's Office for the Northern District of Illinois and the FBI.

Four Charged in Condo Conversion, West Palm Beach, Florida

On August 29, 2014, in the U.S. District Court for the Southern District of Florida, Jose Aller and Ernesto Rodriguez were both sentenced to 12 months and 1 day of incarceration, to be followed by 2 years of supervised release, and were ordered to pay restitution in the amount of \$2,951,263, jointly and severally.

On August 29, 2014, in the same court, Joaquin Cossio pled guilty to one count of conspiracy to commit bank fraud. Cossio previously was charged on August 8, 2014, with one count of conspiracy to commit bank fraud.

On August 7, 2014, a 38-count superseding indictment was filed charging Rashmi Airan-Pace, Jordana Ende-Tobel, Eli Riesel, and Florencio Luis Tezanos each with one count of conspiracy to commit bank fraud. Riesel and Airan-Pace were each also charged with 25 counts of bank fraud, while Ende-Tobel and Tezanos were each charged with 9 and 14 counts, respectively, of bank fraud. Tezanos was also charged with 12 counts of corrupt acceptance of gifts and commissions. The indictment was filed in the U.S. District Court for the Southern District of Florida.

Previously, on April 16, 2014, in the same court, a 37-count federal grand jury indictment was unsealed charging Airan-Pace, Ende-Tobel, Riesel, and Tezanos with conspiracy to commit bank fraud.

The charging documents alleged that the defendants, along with others, conspired to provide buyers of condominiums at Kensington at Royal Palm Beach with incentives that were not disclosed on the HUD-1 settlement statements and other documents submitted as part of the mortgage loan application and approval process. The charges alleged that the relevant mortgage transactions were originated utilizing financial institutions, including Bank of America, N.A., JPMorgan Chase Bank, N.A., and Wells Fargo Bank, N.A. The financial institutions were unaware of these incentives and thereby funded the mortgage loans based on materially false and fraudulent information. Finally, the charging documents alleged that the co-conspirators acted in furtherance of the scheme by communicating these undisclosed incentives to marketers and prospective buyers, then utilized entities controlled by other unindicted co-conspirators to convert funds provided by the project developer into “cash to close” and other incentives paid to or on behalf of the buyers.

From November 2007 through June 2009, Riesel and Airan-Pace allegedly participated in numerous

bank fraud transactions, causing estimated monetary damages to the financial institutions of more than \$4.8 million. Ende-Tobel and Tezanos were implicated in several of these alleged bank fraud transactions. Cossio participated in at least five fraudulent transactions, causing monetary damages to Freddie Mac and Wells Fargo of more than \$1.4 million. Cossio was a principal of Realty Center of America and conspired with others to provide condo buyers with undisclosed incentives.

This matter was initiated based on a referral from the Freddie Mac Fraud Investigation Unit, which investigated these allegations due to some of the mortgage loans having been purchased by Freddie Mac.

This is a joint investigation with the FBI.

\$39 Million Builder Bailout Fraud, Ft. Lauderdale, Florida

On August 22, 2014, a criminal complaint and arrest warrant was issued by the U.S. District Court for the Southern District of Florida for Jaime Sanchez charging him with conspiracy, bank fraud, mail fraud, wire fraud, and aggravated identity theft. Sanchez was arrested by OIG on August 27, 2014.

Juan Carlos Sanchez, who was sentenced to 15 years' imprisonment on January 3, 2013, was the leader of a conspiracy involving numerous mortgage brokers, real estate agents, and settlement agents across southern and central Florida who were involved in the sale of multiple condo conversion properties in Ft. Lauderdale, Orlando, and Tampa. Jaime Sanchez's criminal conduct in the scheme allegedly includes the purchase of 12 units at Marina Oaks and other properties in southern Florida utilizing straw buyers, which resulted in over \$3.7 million in losses. The investigation has documented 165 transactions involving Juan Carlos Sanchez and his co-conspirators and over \$39 million in mortgage

loans. Of the 165 transactions, 131 have been foreclosed, resulting in a \$34 million loss to the various lenders, and another 26 are in the foreclosure process. Freddie Mac's exposure is 36 units totaling \$8.5 million in loans.

Plea in Condo Scheme, Tampa, Florida

On August 20, 2014, in the U.S. District Court for the Middle District of Florida, Brendan Bolger pled guilty to a one-count information alleging conspiracy to commit wire, mail, and bank fraud.

Bolger recruited buyers for a condominium complex in Tampa named Arbors at Carrollwood and conspired with others to submit loan applications that contained false or fraudulent information for otherwise unqualified buyers. After the loans were funded, payments were made from the loan proceeds to Bolger's shell company, Capital Management Guarantee, LLC, in order to pay buyers undisclosed incentives, such as cash to close, cash back, and leasebacks. Eventually, the buyers were unable to make mortgage payments, causing many of the condominium units to go into foreclosure and leading to losses by the lenders. The total loss exposure is \$18,394,134. The loss to the Enterprises has yet to be determined.

This is a joint investigation with the FBI.

Three Pled Guilty in Builder Bailout Scheme, Houston, Texas

On July 17, 2014, in the U.S. District Court for the Southern District of Texas, Robert Rendino pled guilty to conspiracy to commit wire fraud.

On April 23, 2014, and April 15, 2014, in the same court, Christopher Hopper and Theodoros Ezanidis, respectively, pled guilty to conspiracy to commit wire fraud.

The scheme benefited homebuilder Flatiron Development, along with its corporate directors, by selling homes to straw buyers at inflated prices. The homes subsequently fell into foreclosure, causing losses to lending institutions of approximately \$5.7 million. Freddie Mac suffered a loss of \$590,989.64.

This is a joint investigation with the Secret Service.

Defendant Sentenced in Condo Conversion/Builder Bailout Scheme, Orlando, Florida

On June 24, 2014, in the U.S. District Court for the Middle District of Florida, Avi Levy was sentenced to 22 months' imprisonment followed by 3 years of supervised release. Levy was ordered to pay restitution of \$3,675,839 (jointly and severally with co-defendants) and \$200,000 in forfeiture.

From March 2008 through January 2009, Levy and co-conspirators provided false information to financial institutions to obtain mortgage loans for buyers to purchase condominiums at inflated prices. The proceeds from the condominium sale prices were used to pay undisclosed incentives and bonuses to buyers, brokers, and other real estate professionals involved in the transactions. The undisclosed disbursements were not reflected on the HUD-1 forms submitted to the financial institutions. Levy was involved in approximately 23 fraudulent loan transactions. The scheme caused a loss of approximately \$3,675,839 to involved institutions. The loss to Fannie Mae and Freddie Mac was \$199,000 and \$1,559,843, respectively.

This was a joint investigation with the FBI and the Florida Office of Financial Regulation.

Six Indicted in Builder Bailout Scheme, Chicago, Illinois

On May 15, 2014, Robert Lattas, attorney; Jeffrey Budzik, attorney; Warren Barr, developer; James

Carroll, developer; Asif Aslam; and Leonardo Sanders were indicted for bank fraud by a grand jury sitting in the U.S. District Court for the Northern District of Illinois (Eastern Division).

From August 2007 to February 2009, the indicted individuals and others allegedly conspired to defraud mortgage lenders and financial institutions by obtaining millions of dollars in fraudulent mortgages for the purchase of dozens of condominium units in Chicago. As part of the alleged scheme, the developers facilitated payment of the buyers' down payments, which were not disclosed to the lenders. Scheme participants also allegedly submitted false HUD-1 forms, settlement statements, and other false loan documentation to obtain more than \$22 million in fraudulent mortgages on more than 60 properties in an apparent builder bailout scheme. The Enterprises purchased or secured the majority of these mortgages. The Enterprises lost approximately \$4,078,768 as a result of the scheme. The total loss to financial institutions was approximately \$13,045,318.

This is a joint case with the FBI.

Adverse Possession Schemes

Adverse possession schemes occur when individuals or entities illegally use adverse possession (also known as "home squatting") or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties.

Conviction in Scheme to Steal Properties, Broward County, Florida

On July 3, 2014, in the 17th Judicial Circuit Court of Florida, Louis Lewis was sentenced to 5 years in prison, to be followed by 2 years of probation.

Previously, on June 2, 2014, in the same court, Lewis was convicted after a jury trial on five counts of simulating the legal process (felony filing of false documents).

An investigation determined that Lewis was responsible for the submission of fraudulent special warranty and quit claim deeds on numerous properties throughout the state of Florida utilizing different fraudulent "trusts" that he created. Lewis filed false deeds with the local county register's office and sold or attempted to sell properties in all-cash deals within a very short period of time.

Lewis' conduct greatly affected the REO operations of Fannie Mae. He targeted many of its REO properties for his fraudulent sales. The fraudulent deeds prevented the legitimate sale of their REO properties and forced Fannie Mae to hire local attorneys for various court filings. Lewis' conviction stemmed from his activities on three Fannie Mae REO properties. Fannie Mae lost \$406,213 as a result of Lewis' scheme.

This was a joint investigation with the Florida Department of Law Enforcement, the St. Lucie County Sheriff's Office, the Martin County Sheriff's Office, the Broward County Sheriff's Office, the Florida Office of the Attorney General Office of Statewide Prosecution, and the Broward County State Attorney's Office Economic Crime Unit.

Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. These schemes typically involve misrepresentations of buyers' income, assets, employment, and credit profile to make them more attractive to lenders. Bogus Social Security numbers and fake or altered documents such as W-2 forms and bank statements are often used. These schemes are designed to defraud lenders into making loans they would not otherwise make. Perpetrators pocket origination fees or inflate home prices and divert proceeds.

Settlement Attorney Charged with Conspiracy, Bethlehem, Pennsylvania

On September 30, 2014, in the U.S. District Court for the Eastern District of Pennsylvania, Edward Redding was charged with conspiracy.

From October 2006 to at least June 2008, the defendant conducted settlements for real estate transactions that contained fraudulent representations on loan application documents. The loan documents included false statements about a client's employment history, income, assets, and liabilities. The defendant and the previously charged co-conspirators falsely represented that their clients' real estate purchases were for "primary residences" in order to enable their clients to make smaller down payments and pay lower interest rates on the loans. On multiple occasions, the defendant kicked back some of the fees he received as a settlement agent to co-conspirators in return for the business that they sent him.

Over 60 loans originated during the fraud scheme were sold to the Enterprises. Defaults on those mortgages caused them losses of over \$1 million.

This is a joint investigation with HUD-OIG and the Federal Deposit Insurance Corporation Office of Inspector General (FDIC-OIG).

Conviction, Plea, and Sentencing in Loan Origination Scheme, San Diego, California

On September 30, 2014, in the U.S. District Court for the Southern District of California, Grant McCollough and Marisa McCollough each pled guilty to wire fraud as it pertains to a financial institution.

On September 15, 2014, in the same court, Shellie Lockard was sentenced to 3 years' supervised release and ordered to pay restitution in the amount of \$11,075.65.

On July 21, 2014, in the U.S. District Court for the District of Hawaii, Jason Kent pled guilty to wire fraud affecting a financial institution.

From June 2004 until December 2008, real estate investors Kent and the McColloughs engaged in a scheme to acquire investment property funded by mortgage lenders by concealing the true ownership and control of the property from the mortgage lenders. They operated their real estate investments with business associates and co-investors, including Donald Totten. (Totten is involved in multiple cases and was previously indicted.)

Lockard was a mortgage loan processor who worked for Integrated Home Loans, Integrated Lending, Money World, and other entities owned and/or operated by Totten. Totten would find prospective borrowers by advertising on television and other media throughout San Diego. He would then direct Lockard and others to create false and fraudulent loan applications, as well as fraudulent supporting documents, which were ultimately submitted to mortgage lenders to obtain loans. Kent, the McColloughs, and Totten submitted false and fraudulent information relating to employment, income, assets, liabilities, intent to occupy a property, and other material misinformation. The false loan applications and fabricated supporting documents were submitted to federally chartered financial institutions, including members of the FHLBank System. Many of these loans subsequently defaulted, causing the mortgage lenders and secondary purchasers, including the Enterprises, to suffer significant losses as a result of the conspiracy. The total loss resulting from the conspiracy has not yet been determined.

This is a joint investigation with the FBI, IRS-CI, and the U.S. Attorney's Office for the Southern District of California.

\$3.5 Million Loan Origination Fraud, Maryland

On various dates the following individuals were found guilty or sentenced before the U.S. District Court for the District of Maryland:

- On September 19, 2014, Annika Boas was found guilty by a jury on five felony counts, including conspiracy to commit wire fraud affecting a financial institution, wire fraud, and false statements.
- On September 2, 2014, Abdallah Kitwara pled guilty to conspiracy to commit wire fraud affecting a financial institution.
- On August 7, 2014, Mrisho Mzese was due to be sentenced but fled back to Tanzania and is now a fugitive from justice.
- On July 24, 2014, Ayoub Luziga pled guilty to one count of conspiracy to commit wire fraud affecting a financial institution.
- On July 23, 2014, Carmen Johnson was indicted on charges including conspiracy to commit wire fraud, wire fraud affecting a financial institution, false statement on a loan application, aiding and abetting, and one forfeiture count.
- On July 17, 2014, Raymond Abraham pled guilty to one count of conspiracy to commit wire fraud affecting a financial institution.
- On June 16, 2014, Mokorya Cosmas Wambura was sentenced to 60 months' incarceration in a federal correctional facility. He will then face deportation back to Tanzania. On the same date, Gladyness Silaa was sentenced to 3 years' probation and ordered to pay \$378,602 in restitution, joint and several, with defendants Peter Ligate, Cane Mwhava, and Johnson.
- On June 2, 2014, Flavia Makundi was sentenced to time served for her role in the fraud scheme.

- On May 1, 2014, Mzese was found guilty by a jury on 11 felony counts including conspiracy to commit wire fraud affecting a financial institution and aggravated identity theft.
- On April 22, 2014, and April 21, 2014, Ligate and Mwhava, respectively, pled guilty to one count of conspiracy to commit mail and wire fraud affecting a financial institution.

The defendants allegedly diverted \$1.3 million in funds from over \$8.2 million in fraudulently obtained loans, which resulted in losses of over \$1.2 million to the Enterprises and \$3.5 million to FHA and conventional lenders.

This was a joint investigation with HUD-OIG, the Department of Homeland Security Immigration and Customs Enforcement, Treasury Office of the Inspector General, and the Secret Service.

Defendants Sentenced in Loan Origination Fraud, California

On August 25, 2014, in the U.S. District Court for the Central District of California, Lili Ayala Hernandez was sentenced to 6 months' incarceration, 4 months' home detention, 36 months' supervised release, and was ordered to pay \$643,000 in restitution. Hernandez had previously pled guilty to conspiracy to commit bank fraud or wire fraud affecting a financial institution.

From 2005 to 2007, Hernandez, a loan officer at Jolu, Inc., and co-conspirators falsified documents regarding employment, income, and assets and created fraudulent rental documentation. They also purchased fraudulent tax letters that supported the fabricated borrower self-employment claims. They then submitted the fraudulent documents to financial institutions for the purpose of obtaining mortgages.

Many of the mortgages were sold to the Enterprises; they suffered losses of approximately \$1.5 million.

This was a joint investigation with the FBI and the Ventura County District Attorney's Office.

Defendants Sentenced in Loan Origination Fraud, Sacramento, California

On August 21, 2014, in the U.S. District Court for the Central District of California, Soo Kyung Hong (also known as Maria Hong) was sentenced to 36 months in prison and ordered to pay \$2,089,000 in restitution, joint and several, with defendant Shing Yang, including \$203,000 to Freddie Mac.

On August 4, 2014, in the same court, Yang (also known as Jack Yang) was sentenced to 14 months' incarceration, 3 years' probation, and ordered to pay restitution in the amount of \$2,257,866 to victim financial institutions, including \$203,000 to Freddie Mac.

Starting in late 2006 and continuing until early 2007, co-conspirator Hong, whom Yang knew from previous business dealings, approached Yang and asked if she could use Yang's company, Red Gate Enterprises, to falsely verify the employment of home buyers who were applying for home loans. Yang agreed and subsequently forwarded all lender employment verification calls to Hong's cell phone number. Using Red Gate Enterprises, Hong was able to have two additional co-conspirators act as straw buyers and obtain loans on at least four properties. The loss to the lenders on these four properties is approximately \$1.24 million. One of the loans was purchased by Freddie Mac, which suffered a loss of approximately \$245,000.

This was a joint investigation with the FBI and IRS.

Suspended Real Estate Agent Sentenced, Kansas City, Kansas

On August 11, 2014, in the U.S. District Court for the District of Kansas, Manjur Alam, a suspended real estate agent, was sentenced to 6 years in federal prison and ordered to pay \$258,309 in restitution for his previous plea to conspiracy to commit wire and bank fraud.

From 2006 to approximately 2013, Alam recruited co-conspirators who agreed to be straw buyers in a scheme in which false employment, income, and other documents were used to qualify them for residential mortgage loans. Some of the loans were purchased by the Enterprises. Six co-conspirators were previously sentenced for their roles in the scheme. The court determined that the actual loss totaled more than \$485,000.

This was a joint investigation with IRS-CI and HUD-OIG.

Former Loan Officer Pleads Guilty in Straw Buyer Scheme, Sherman, Texas

On July 30, 2014, in the U.S. District Court for the Eastern District of Texas, Marcus Carr was sentenced to 30 months' incarceration, 3 years' probation, and was ordered to pay Fannie Mae \$949,597.66 and Freddie Mac \$176,310.03 in restitution for his earlier guilty plea to conspiracy to commit bank fraud.

From on or about July 2008 through August 2010, Carr, a former licensed loan officer, conspired with others, including a seller of a property, to sell the property at an inflated price to straw buyers. Carr supplied straw buyers with the down payment funds needed to close the transactions. The seller received his proceeds after the closing on the property and

*Soo Kyung Hong
(also known as
Maria Hong) was
sentenced to 36
months in prison.*

kicked back a portion of the proceeds outside of closing. A conspirator then paid a portion of the funds to Carr outside of closing. Carr was involved in similar fraudulent transactions on seven other homes. The scheme caused a loss of \$1,393,129.91 to involved financial institutions, which included a loss of \$949,597.66 to Fannie Mae and \$176,310.03 to Freddie Mac.

This was a joint investigation with HUD-OIG.

Former Escrow Agent Sentenced in Fraud, Dallas, Texas

On July 30, 2014, in the U.S. District Court for the Eastern District of Texas, Lacie Devine was sentenced to 63 months' incarceration, 3 years' probation, and ordered to pay Fannie Mae \$1,555,484.80 and Freddie Mac \$239,989.69 in restitution for her earlier guilty plea to conspiracy to commit mail fraud.

From March 2008 through February 2010, Devine, an escrow officer, conspired with others to recruit buyers to purchase properties from sellers at inflated sales prices, assist the buyers in obtaining mortgage loans based on these inflated sales prices, cause the sellers to kickback portions of the loan proceeds to them, pay portions of the loan proceeds to the buyers, and have Devine not disclose these payments to the lenders. Devine was involved with fraudulent transactions on 28 homes. The homes went into default and caused a loss of \$3,718,702.28 to involved financial institutions, which included \$1,555,484.80 of loss to Fannie Mae, which bought or secured mortgages on nine of these properties. The scheme also caused \$239,989.69 of loss to Freddie Mac, which bought mortgages on two of these properties.

This case was a joint investigation with the FBI, HUD-OIG, and the Texas Department of Insurance Fraud Unit.

Six Charged in Origination Scheme, Chicago, Illinois

On July 30, 2014, Anthony Trice, Jerrod Weathersby, Noreen Mian, Warren Taylor, and David Edwards were indicted by a grand jury sitting in the U.S. District Court for the Northern District of Illinois on 18 counts of bank fraud, wire fraud, and identity theft. In a separate indictment, Derrek L. Campbell II was charged with two counts of making false statements on a mortgage loan application and one count each of wire fraud and student loan fraud. Campbell allegedly obtained more than \$300,000 through false statements to mortgage lenders between 2009 and 2013 in connection with the purchase of two properties in 2009, obtaining federal student aid in 2011, and seeking a loan modification on one of the properties in 2013.

From 2006 to 2010, a group of individuals, including the aforementioned, allegedly conspired to commit various types of financial fraud, including mortgage fraud (FHA and conventional), federal student loan fraud, and small business loan fraud.

According to the indictments, Trice and Weathersby used their own identities, in addition to collecting the PII of others, to fraudulently obtain mortgages and student aid through misrepresentation. Mian, a loan officer, allegedly created false employment and income information in order to gain loan approval for subjects, including straw buyers. One of the straw buyers used to obtain a mortgage was also used to obtain a small business loan, which was insured by the federal government. All of the conventional loans included in this investigation, valued at approximately \$1 million, were sold to the Enterprises. Some of the loans were repurchased by the original lender. Total losses are expected to exceed \$2 million, which includes mortgages, federal student aid, and a small business loan. The mortgage

exposure alone is estimated at \$1 million and from that the exposure to the Enterprises is approximately \$800,000.

This was a joint investigation with the Department of Education Office of Inspector General, HUD-OIG, SBA-OIG, and the FBI.

Former Loan Officer/Investor Convicted at Trial; Attorney Sentenced and Suspended, New Haven, Connecticut

On July 23, 2014, in the U.S. District Court for the District of Connecticut, Jacques Kelly, former Westchester County corrections officer/investor, was sentenced to 15 months' incarceration, 5 years' supervised release, and ordered to pay \$179,769.71 in restitution. Previously, on April 18, 2014, Kelly, along with Andrew Constantinou, former GMAC and Countrywide loan officer, was convicted by a jury in the same court of one count of conspiracy to commit mail, wire, and bank fraud. In addition, Kelly was found guilty of one count of wire fraud and one count of making a false statement to a financial institution.

On June 2, 2014, Genevieve Salvatore, closing attorney, was ordered to make restitution in the amount of \$1,262,889.03 based on her previous plea in the same court to mail fraud. On June 3, 2014, Salvatore was ordered suspended from the practice of law in the state of Connecticut for a period of 6 years as of June 24, 2014.

From December 2006 to approximately February 2008, Constantinou, Kelly, and others conspired to defraud mortgage lenders and financial institutions

by obtaining over \$10 million in fraudulent mortgages for the purchase of 20 multifamily properties in New Haven. As part of the scheme, sellers agreed to accept significantly lower contract prices that were not disclosed to the lenders. Scheme participants submitted false HUD-1 forms, closing and repair credits, false leases, and other false loan documentation in an apparent seller assistance and short sale scheme wherein the Enterprises purchased mortgages for multiple homes.

This was a joint investigation with the FBI, USPIS, and HUD-OIG.

Multimillion Dollar Mortgage Fraud Scheme, Washington, DC

On July 22, 2014, an indictment was unsealed in the U.S. District Court for the District of Columbia alleging conspiracy and bank, wire, and mail fraud. Named in the indictment were Edward Dacy, settlement agent, and A. Conrad Austin, CPA.

On the same date in the same court, the court unsealed four guilty pleas. Frederick Robinson Sr., Frank Davis Jr., Howard

Tutman III, and Pauline Pilate each pled guilty to conspiracy to commit bank fraud.

According to the indictment, Dacy and Austin defrauded banks, mortgage lenders, the Enterprises, and FHA by assisting others to obtain mortgage loans on residential real estate properties through false loan applications and documents and fraudulent settlements. These fraudulent acts ultimately caused a loss to banks, lenders, the Enterprises, and FHA when mortgages were not paid.

The indictment states that co-conspirators Davis and Robinson purchased properties in the names

*Attorney
Genevieve
Salvatore
suspended from
the practice of
law for 6 years.*

of general partnerships. Davis and Robinson would then recruit individuals to repurchase these same properties for higher amounts, funded by fraudulently obtained mortgage loans, by promising the buyers that they would not be required to make financial contributions toward the purchase of the properties, pay the monthly mortgage payments or expenses, or maintain the properties. The straw buyers were used to purchase a number of properties; the indictment lists 15 transactions in which mortgage loans in excess of \$4.3 million were sought or obtained.

This is a joint investigation with HUD-OIG, DOJ Office of Inspector General, the Department of Homeland Security Office of Inspector General, the Secret Service, and the FBI.

Six Charged in Loan Origination Scheme, Brooklyn, New York

On June 20, 2014, in the U.S. District Court for the Eastern District of New York, Michelle Baker, Samuel Bell, Barthelemy Adjavehouede, Alexander Barrett, Dirk Ameen Hall, and James Bayfield were each indicted with one count of conspiracy to commit bank fraud and wire fraud and five counts of bank fraud.

Hall and others allegedly participated in a short sale scheme involving a Freddie Mac-owned property. The investigation uncovered a pattern of short sale schemes involving straw buyers and co-conspirators alternately selling properties at inflated prices, which impacted additional GSE and FHA properties. The co-conspirators allegedly used backdated and falsified documents to conceal from lending institutions the correct date of the sale and made it appear as though a sale from a co-conspirator to the straw purchaser occurred over 60 days prior to the actual date it took place. Mortgages for these transactions were initially processed through Link One Mortgage, which purchased mortgages from, among others, the now

defunct AmTrust Bank. The fraud caused financial institutions to loan over \$5.5 million, which likely would not have occurred if the true details relating to the deals had been revealed.

Freddie Mac losses to date are \$544,593. Fannie Mae has two properties associated with the scheme, but losses have not been estimated at this time.

This is a joint investigation with the FBI, the FDIC-OIG, and HUD-OIG.

Loan Origination Scheme, Ft. Worth, Texas

On June 18, 2014, in the U.S. District Court for the Northern District of Texas, Richard Calvin Ford III pled guilty to one count of wire fraud.

From April 2006 through December 2007, Ford allegedly conspired with others to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material fact in the HUD-1 forms. The information alleged that Ford recruited buyers to purchase homes by paying approximately \$5,000 to the buyers and paying the closing costs. This information was not disclosed to the lender. Ford earned \$800,000 in illegal kickbacks from realtors. In total, Ford received over \$4 million on 118 different properties. Freddie Mac incurred a \$34,069 loss as a result of Ford's scheme.

This was a joint investigation with the FBI.

Former Loan Officer Indicted for Falsifying Loan Documents, St. Louis, Missouri

On June 11, 2014, in the U.S. District Court for the Eastern District of Missouri, Joseph Brogan, loan officer with USA Mortgage, was indicted on one count of conspiracy to commit bank fraud, two counts of bank fraud, and one forfeiture count.

Between 2007 and 2010, Brogan allegedly conspired with Mike Wallis and Jerrick Hawkins (both of

whom previously pled guilty) in a scheme in which Brogan used false gift letters to disguise the origin of down payments he allegedly supplied for customers of USA Mortgage. In order to be reimbursed for the down payments and obtain additional proceeds, false invoices were submitted to title companies purporting to be expenses for repair work completed on the properties. Brogan caused losses of approximately \$500,000 to Fannie Mae, FHA, and other financial institutions.

This is a joint investigation with HUD-OIG.

Sentencing in Origination Scheme, Texas

On May 28, 2014, in the U.S. District Court for the Eastern District of Texas, Donna Cobb was sentenced to 21 months' incarceration and ordered to pay \$2,151,367 in restitution.

On May 15, 2014, in the same court, Donald Mattox was sentenced to 10 months and 14 days of incarceration, 2 years' supervised release, and ordered to pay \$965,190 in restitution and \$165,197 in forfeiture.

On April 22, 2014, in the same court, Michael Edwards was sentenced to 51 months' incarceration, 1 year of probation, and ordered to pay \$1.7 million in restitution and \$150,000 in forfeiture.

From September 2005 through July 2008, Cobb, Mattox, Edwards, and others conspired to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material fact in HUD-1 forms, settlement statements, loan applications, and other loan documents. The scheme caused an estimated loss of \$967,989 to Fannie Mae and an estimated loss of \$130,265 to Freddie Mac.

This was a joint investigation with the FBI.

California Developer Indicted, Oakland, California

On May 15, 2014, Ayman Shahid was indicted by a federal grand jury sitting in the U.S. District Court for the Northern District of California (Oakland) for bank fraud and conspiracy to commit bank fraud.

From approximately November 2006 until October 2008, Shahid and others allegedly caused financial institutions and other mortgage lenders to make residential home mortgage loans to homebuyers based on false and misleading loan applications and in amounts greater than the properties' true market values. Shahid managed Discovery Sales, Inc., which was the sales arm of several affiliated residential construction companies, including Discovery Home Builders and Albert D. Seeno Construction Co. Shahid allegedly devised and managed a scheme to provide undisclosed incentives to unqualified home buyers and then allegedly hid the scheme from appraisers and bank underwriters so that loans to unqualified buyers would be approved.

The aggregate sales price of the properties associated with the fraud was in excess of \$227 million, resulting in mortgage loans in excess of \$154 million going into foreclosure or short sale proceedings. Losses to the Enterprises are at least \$3 million.

This is a joint investigation with the FBI and IRS-CI.

Loan Officer Indicted for Money Laundering, Dallas, Texas

On April 9, 2014, in the U.S. District Court for the Eastern District of Texas, loan officer Euneisha Hearn was indicted (second superseding indictment) for conspiracy to commit money laundering and bank fraud.

During April 2008, Hearn and others allegedly conspired to launder proceeds from fraudulent real estate transactions. The fraudulent real estate transactions scheme caused a loss of \$865,940

to involved financial institutions, including the Enterprises, which purchased mortgages that funded the fraudulent transactions.

This is a joint investigation with IRS-CI.

Loan Officer Pleads Guilty, Sherman, Texas

On April 7, 2014, in the U.S. District Court for the Eastern District of Texas, Brigette Ellis pled guilty to misprision of a felony.

On October 9, 2013, in the same court, Hoa Lee Perkins and Ellis were indicted for conspiracy to commit money laundering.

From December 2006 through November 2008, Perkins, a real estate agent, Ellis, a loan officer, and others were involved in an illegal property flipping scheme. Perkins purchased homes in northern Texas cities in her name or in her associate's parents' names at market value. The homes were then flipped using straw buyers with bogus appraisals reflecting much higher values. False notarized loan documents were submitted to lenders, with Ellis serving as the loan officer for some of the properties. Perkins made the down payment, which was not disclosed on the HUD-1 form. The loan proceeds were paid to Perkins through an entity she controlled, Manda Homes LLC. Perkins and her co-conspirators flipped 26 properties resulting in fraudulent loans totaling over \$8 million. All of the properties were foreclosed or sold by short sale. The scheme caused a loss of approximately \$2,041,439 to Fannie Mae and \$4,308,000 to Freddie Mac.

This is a joint investigation with the FBI and IRS-CI.

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

intentionally misrepresenting or not disclosing material facts to induce a lender to agree to a short sale to which they would not otherwise agree.

Mortgage Fraud Scheme Indictments and Arrests, Denver, Colorado

On September 18, 2014, Jose Ricardo Sarabia-Martinez, Lauren Maes Sarabia, Pedro Sarabia-Martinez, Pablo Sarabia-Martinez, Ricardo Sarabia-Salcido, and Teresa Martinez were indicted by a sitting grand jury in the Denver District Court on multiple criminal violations, including violating the Colorado Organized Crime Control Act, forgery, theft, and criminal impersonation.

The six family members are alleged to have used their status in the real estate industry to perpetrate a fraud-for-profit mortgage scheme. They allegedly manipulated straw buyers to buy and sell properties going into foreclosure. Twelve properties were named in the indictment in relation to \$4.6 million in fraudulently obtained loans.

This is a joint investigation with the Colorado State Attorney General's Office, the Colorado Bureau of Investigation, the FBI, and SBA-OIG.

Former Loan Officer and Co-Conspirators Convicted, Newark, New Jersey

The following individuals all pled guilty to conspiracy to commit wire fraud in the U.S. District Court for the District of New Jersey:

- Jose Salguero, co-owner of property management firm, on September 15, 2014;
- Anthony Arthur on September 10, 2014;
- Paul Chemidlin, unlicensed appraiser, on July 22, 2014;
- Yazmin Soto-Cruz, co-owner of property management firm, on June 17, 2014;

- Christopher Ju on April 24, 2014; and
- Delio Coutinho, loan officer, on April 22, 2014.

Salguero, Arthur, Chemidlin, Soto-Cruz, Ju, Coutinho, and other defendants conspired to cause lenders to release liens on encumbered properties via fraudulently arranged short sale transactions. To complete the transactions, defendants submitted false mortgage loan applications, inflated property values, false bank statements, false tax returns, inflated assets and earnings, false employment information, and false closing documents to lenders. Fannie Mae purchased over 100 loans from the mortgage lenders. The charges against defendants involved losses to financial institutions/lenders of approximately \$2 million.

This is a joint investigation with the FBI, HUD-OIG, SIGTARP, IRS, USPIS, and the Hudson County Prosecutor’s Office.

Loan Manager Indicted in Short Sale Scheme, New Jersey

On July 10, 2014, in the Superior Court of New Jersey, Brian Lyles, former branch manager of GMI Home Loans, was charged in a superseding indictment with conspiracy, money laundering, theft by deception, and misconduct by a corporate official.

Between June 2008 and July 2009, the indictment alleges Lyles conspired to defraud lenders of more than \$1.2 million in a short sale flipping scheme by facilitating fraudulent short sales and subsequent fraudulent loan originations on four properties. Lyles allegedly made fraudulent misrepresentations on uniform residential loan applications and settlement forms submitted for four borrowers. As the manager of the Jersey City office of GMI Home Loans, Lyles allegedly knew the information presented to his

employer contained false information and omissions of material facts, including the existence of straw buyers and his undisclosed financial interest in the transactions. In one of the charged transactions, Freddie Mac suffered a loss of \$334,328.

This is a joint investigation with the New Jersey Office of the Attorney General Division of Criminal Justice.

Eleven Charged in Short Sale “Flopping” Scheme, Los Angeles, California

On June 25, 2014, Eric Wolfe, Della Wolfe, Jackalyn Bashara, Deanna Bashara, Billie Bryant, Gerald

Bryant, Jered Bryant, Brian Deden, Joseph Jaime, James Styring, and Lindsay Petty were indicted by a grand jury sitting in the Superior Court of California for a number of offenses, including mortgage fraud, conspiracy, and forgery.

From mid-2007 to mid-2013, FK Bancorp and the aforementioned individuals allegedly engaged in several schemes to fraudulently obtain money, including: a “flopping” scheme where banks

were convinced to accept short sale prices that were lower than a legitimate buyer would be willing to pay; recording false second and third liens; tricking distressed homeowners into signing their properties over to the conspirators; and renting distressed properties while simultaneously stalling foreclosures through the use of fraudulent documents. Mortgages on at least eight of the properties were owned by the Enterprises, causing losses to date of \$300,000 to Fannie Mae and Freddie Mac.

This is a joint investigation with HUD-OIG, the California Department of Justice, and the California Franchise Tax Board.

*Eleven individuals
charged in a
short sale
“flopping”
scheme.*

Two Pleas in Short Sale Fraud, Denver, Colorado

On June 12, 2014, in the Denver District Court, Sheila Gaston and Sheila Giberti both pled guilty to conspiracy to commit theft. On the same date, Giberti was sentenced to 2 years' probation and ordered to pay \$3,286 in restitution.

Previously, on November 7, 2013, in the same court, Gaston, Giberti, Wendy Thomas, Christina Nicole Smith, Kurt Smith, Duane Thomas, Christopher Consol, Janice Gardner, and Joseph Slowey were indicted on charges of theft, forgery, and violations of the Colorado Organized Crime Control Act.

From 2008 to 2013, Wendy Thomas, operator of Home Support Solutions, and her co-conspirators are alleged to have devised a scheme to acquire control of distressed properties and negotiate with the servicers of the mortgages using fraudulent documents to acquire the properties at less than full market value. The defendants then allegedly flipped the properties for profit through the use of straw buyers. Some properties were held in the Enterprises' portfolios, while others were insured by FHA. Eight properties were identified in the indictment, including two from the Enterprises' portfolios. Overall, 18 of the flipped properties were held in the Enterprises' portfolios. The alleged fraud resulted in over \$500,000 in losses on the 18 Enterprise properties, with over \$100,000 in theft of commissions for the fraudulent short sales.

This is a joint investigation with the Colorado State Attorney General's Office, the Colorado Bureau of Investigation, and HUD-OIG.

Loan Modification and Property Disposition Schemes

Many companies claim to be able to secure loan modifications for desperate homeowners. Some even claim affiliation with the government. Unfortunately, the offers usually come with upfront fees and little action, leaving homeowners even worse off.

Additionally, various fraud schemes can impact sales of Enterprise REO.

Foreclosure Delay and Sham Property Deed Transfers Scheme, Sacramento, California

On September 29, 2014, in the U.S. District Court for the Eastern District of California, the following four individuals were sentenced for their roles in a foreclosure rescue scheme:

- Jewel Hinkles (also known as Cydney Sanchez), sentenced to 5 years' imprisonment, 3 years' supervised release, and a \$100 special assessment;
- Jesse Wheeler, sentenced to 3 years' imprisonment, 3 years' supervised release, and a \$100 special assessment;
- Cynthia Corn, sentenced to 30 months' imprisonment, 1 year of supervised release, and a \$100 special assessment; and
- Brent Medearis, sentenced to 22 months' imprisonment, 3 years' supervised release, and a \$100 special assessment.

Hinkles, the founder of Horizon Property Holdings, LLC, offered a service called "Save My Home" or "Homesaver," which promised to rescue financially distressed homeowners from foreclosure and reduce the principal on homeowners' mortgages. Horizon offered its program directly to clients and also through an affiliates program that was operated by the co-defendants, who promoted and sold the program. To prevent foreclosure and defraud the existing lenders, the defendants filed fraudulent deeds, which transferred an interest in the homeowner's property to a fictitious entity. In many instances, the defendants filed fraudulent petitions in bankruptcy court to bring an immediate halt to any foreclosure actions against a debtor's property. In total, the scheme collected at least \$4.9 million from more than 1,000 homeowners, including

homeowners whose mortgages were owned by the Enterprises.

This is a joint investigation with USPIIS, the FBI, and the Stanislaus County District Attorney's Office.

Foreclosure Delay Scheme, Alameda County, California

On September 3, 2014, in the Alameda County Superior Court of California, Karl Robinson was sentenced to 180 days in county jail with half time and credit for time served and 5 years' probation. Previously, on July 8, 2014, Robinson entered a no contest plea to one count of conspiracy and two counts of recording a false document.

On June 22, 2014, in the same court, Yamen Elasadi was sentenced to 120 days in county jail and 5 years' probation.

On June 11, 2014, in the same court, Michael Bachmeier and Elasadi entered no contest pleas to forgery and conspiracy to commit forgery, respectively. In addition, Bachmeier waived his presentence report and was sentenced to 30 days with credit of 9 days served plus 3 years' probation.

From 2008 through 2010, Robinson and others collected approximately \$5.9 million in proceeds from his foreclosure-delay/eviction-delay scheme involving at least 237 fraudulent **bankruptcies**. Robinson operated Stay in Your Home Today out of Los Angeles from 2008 to 2010. Robinson contacted homeowners in foreclosure and facing a trustee's sale and promised that he would delay the trustee's sale for up to 36 months for an initial payment of \$1,495 and additional payments of \$1,000 per month thereafter. Robinson caused a series of fraudulent bankruptcies to be filed, mostly in the U.S. District Court for the Central District of California, to accomplish the delays. Robinson and others would also file backdated "short form deed of trust and assignment of rent" forms (hereafter deeds

of trust) against the clients' homes, which included several d/b/a companies as beneficiaries that were also used on the bankruptcies. Robinson's clients' (the homeowners) signatures were forged on the deeds of trust and a "cut and paste" notary stamp and forged notary signature were used to complete the deeds of trust for recordation. Others engaged Robinson to file the false bankruptcies and record the false deeds of trust. More than \$450,000 was paid to Robinson for these services.

In total, the subjects collected over \$5.9 million in proceeds targeting approximately 237 homeowners through the use of fraudulent bankruptcies, including homeowners whose mortgages were owned by Fannie Mae.

This is a joint case with the FBI.

SunTrust Mortgage, Inc. Signs Agreement to Resolve Criminal Investigation into SunTrust's HAMP Program for \$320 Million

On July 3, 2014, SunTrust Mortgage, Inc. entered into a \$320 million restitution and remediation agreement with DOJ to resolve the criminal investigation into SunTrust's HAMP program in the U.S. District Court for the Western District of Virginia. The settlement stipulated that SunTrust will pay \$10 million in restitution to the Enterprises. In addition, SunTrust will pay \$179 million in restitution to compensate affected borrowers and another \$95 million will be put into a general reserve in the event it is required at some future date. SunTrust agreed to provide \$20 million to a housing grant fund and forfeit \$16 million to Treasury. SunTrust also agreed to a corporate remediation plan.

From March 2009 to December 2010, SunTrust Mortgage, a subsidiary of SunTrust Banks, Inc., under-resourced and underfunded its operation of HAMP contracted on behalf of the Enterprises. In addition, SunTrust misled numerous mortgage servicing borrowers who sought mortgage relief

through HAMP. Specifically, SunTrust made material misrepresentations and omissions to borrowers in HAMP solicitations and failed to process HAMP applications in a timely fashion. As a result of SunTrust's mismanagement of HAMP, approximately 26,000 homeowners who applied for a HAMP modification with SunTrust suffered financial harm.

This was a joint investigation with SIGTARP and USPIS.

Employee Misconduct

OIG is also responsible for investigating criminal or civil internal misconduct within FHFA.

Threat Against Former FHFA Acting Director

On April 30, 2014, Richard Hornsby, FHFA COO, was arrested on a complaint issued by the Superior Court of the District of Columbia alleging threats against an FHFA official. Hornsby was placed on paid administrative leave by FHFA and remains in that status as of September 30, 2014.

OIG was notified that a threat had been made against the former FHFA Acting Director, and a subsequent investigation disclosed that threats against the Acting Director's person were allegedly made by Hornsby. The investigation is pending adjudication.

Civil Cases

Bank of America Civil Fine

On July 30, 2014, in the U.S. District Court for the Southern District of New York, Bank of America was ordered to pay \$1,267,491,770, and former COO Rebecca Mairone of Countrywide was ordered to pay \$1 million in civil penalties to the U.S. government.

A jury found that Countrywide, and later Bank of America (which acquired Countrywide in 2008), implemented a new loan origination process called

the "High Speed Swim Lane" or "Hustle," which was intentionally designed to process loans at high speed and without consideration to quality checkpoints. As a result, this loan process generated thousands of fraudulent, defective residential mortgage loans that were sold to the Enterprises and later defaulted. The losses to the Enterprises were over \$1 billion from August 2007 to May 2008.

This was a joint investigation with SIGTARP.

Residential Mortgage-Backed Securities Working Group

During the reporting period, OIG continued to actively participate in the Residential Mortgage-Backed Securities (RMBS) Working Group established by the President in 2012 to investigate those responsible for misconduct contributing to the financial crisis through the pooling of mortgage loans and sale of RMBS. The Working Group is a collaborative effort of dozens of federal and state law enforcement agencies.



On July 14, 2014, Associate Attorney General Tony West (left) presented Acting Inspector General Michael Stephens with an award acknowledging OIG's significant contribution to the RMBS Working Group since its inception in 2012.

OIG's participation has included, among other things, providing background advice with regard to the RMBS market, providing strategic litigation advice, assisting with witness interviews, and reviewing documents and other evidence produced by various parties for members of the Working Group.

During the six months ended September 30, 2014, the Working Group was successful in negotiating settlements with two of America's largest banks for illegal behavior conducted by the banks and companies they acquired in relation to the sale of RMBS. These settlements, with Bank of America and Citigroup, totaled \$23.65 billion. OIG played a key role in the investigations leading to each of these settlements. When added to the previously reported settlement negotiated by the Working Group with JPMorgan, the total amount of all such settlements (including the \$4 billion from the JPMorgan settlement that went to FHFA) is \$36.65 billion.

According to DOJ, none of these settlements release officers or employees of the banks from civil or criminal prosecution.

Bank of America Settlement

The settlement reached with Bank of America on August 21, 2014, constituted the largest civil settlement with a single entity in American history. The settlement covered claims made against the bank as well as two companies the bank acquired: Countrywide Financial Corporation and Merrill Lynch. The bank agreed to pay \$9.65 billion to DOJ, several states, and government agencies, including the SEC. The bank will also provide \$7 billion of relief to struggling homeowners, borrowers, and communities affected by the bank's conduct. Bank

RMBS Working Group negotiates settlements worth \$23.65 billion.

of America admitted that many of the residential mortgage loans securitized in RMBS sold to investors were defective, and statements made in prospectuses about the quality of the loans were inaccurate.

Citigroup Settlement

On July 14, 2014, members of the Working Group reached a \$7 billion settlement with Citigroup. As part of the settlement, Citigroup acknowledged it made serious misrepresentations to the investing public about the mortgage loans it securitized in RMBS before January 1, 2009. The bank paid \$4.5 billion to settle federal and state civil claims by various entities related to the issuance of RMBS. Citigroup also agreed to pay \$2.5 billion in the form of consumer relief to aid mortgage borrowers harmed by Citigroup's conduct.

Systemic Implication Reports

Systemic implication reports (SIRs) identify possible risks and exploitable weaknesses in FHFA's management control systems that OIG discovers during the course of our investigations. We communicate these to the Agency promptly so it can strengthen both its systems and those of the entities it supervises and regulates.

SIR: TBW-Colonial Investigation Lessons Learned (SIR-2014-0013, August 21, 2014)

This SIR identifies fraud indicators and extracts lessons learned from the multifaceted and multiyear fraud scheme perpetrated by officers and employees of Taylor, Bean & Whitaker Mortgage Corporation (TBW) and Colonial Bank. The fraud caused billions of dollars in losses to victims, including Freddie Mac, and resulted in substantial criminal penalties for

conspirators, including 30 years' imprisonment for Lee Bentley Farkas, former chairman of TBW.

Farkas and his co-conspirators at TBW and Colonial defrauded multiple financial institutions, causing billions of dollars of losses over the course of seven years. However, there were indicators throughout the scheme that—had they been appropriately analyzed and acted upon—could have mitigated the extent and impact of the fraud scheme. For example, Colonial changed bank regulators three times over the course of a decade; Fannie Mae terminated its business relationship with TBW; TBW's business volume expanded at an unprecedented rate; TBW failed to satisfy its repurchase responsibilities and comply with a **collateral** demand; and TBW's internal controls were ineffective.

To avoid a recurrence of such losses, the Enterprises need to improve counterparty monitoring, contract enforcement, and communication. Accordingly, OIG recommended that FHFA should consider:

- coordinating with **Ginnie Mae** on best practices related to how long an independent public accountant (IPA) may audit a counterparty before it must be replaced;
- issuing guidance limiting the number of years that an IPA can audit a counterparty's annual financial statements before it must be replaced;
- ordering the Enterprises to require IPAs to perform supplemental compliance tests;
- ordering the Enterprises to increase their monitoring of counterparties that exhibit abnormal or unusual characteristics;
- implementing guidance to the Enterprises that will govern their discretion to waive contractual obligations of counterparties;
- requiring the Enterprises to share—between themselves and with FHFA, Ginnie Mae, and

other interested entities—negative performance and compliance data and evidence of illegal activities of counterparties. Additionally, in furtherance of this recommendation, FHFA needs to monitor the Enterprises' sharing and prohibit the formation of nondisclosure agreements with terminated or suspended counterparties; and

- ordering the Enterprises to require—by means of their seller/servicer agreements—counterparties to implement corporate governance procedures that direct chief risk officers (and internal auditors) to report illegal activities, compliance violations, and unresolved suspicions of the same to both the CFO and the board of directors.

Investigations Strategy

OIG has developed and intends to further develop close working relationships with other law enforcement agencies, including DOJ and the U.S. Attorneys' Offices; state attorneys general; mortgage fraud working groups; the Secret Service; the FBI; HUD-OIG; the FDIC-OIG; IRS-CI; SIGTARP; the Financial Crimes Enforcement Network; and other federal, state, and local agencies.

During this reporting period, OI provided 45 fraud awareness briefings to various audiences.

Regulatory Activities

Consistent with the Inspector General Act, OIG assesses whether proposed legislation, regulations, and policies related to FHFA are efficient, economical, legal, and susceptible to fraud and abuse. During the semiannual period, FHFA responded to OIG's prior-period notification that it had not implemented the government-wide suspension and debarment system and the Program Fraud Civil Remedies Act of

1986 (PFCRA). Additionally, OIG made substantive comments on two proposed rules and one advisory bulletin.

1. Implementation of the Government-wide Suspension and Debarment System and PFCRA

The government-wide suspension and debarment system was established in 1986 by Executive Order 12549. Section 1 of the Executive Order requires agencies to participate in the nonprocurement suspension and debarment system, and section 3 provides that executive agencies “shall issue regulations governing their implementation” of it.³ The regulations were to be issued no later than 12 months after the Office of Management and Budget issued appropriate guidance to the agencies.⁴ The Office of Management and Budget issued such guidance in 1987.⁵ Thus, the requirement that agencies issue suspension and debarment regulations has been fully effective since at least 1988. Further, the Federal Acquisition Regulation (FAR) specifically directs agencies to “establish appropriate procedures to implement” FAR’s policies and procedures on procurement-related suspensions and debarments.⁶

PFCRA provides agencies with an administrative remedy for low-dollar frauds (i.e., \$150,000 or less) involving false claims and statements.⁷ PFCRA permits agencies to recover up to twice the amount of the loss (i.e., potentially up to \$300,000) plus a penalty per false claim or statement. Section 3809 of Title 31 of the U.S. Code requires agencies to “promulgate rules and regulations necessary to implement” PFCRA within 180 days from the statute’s enactment in 1986.

The applicability of Executive Order 12549 and PFCRA do not hinge upon an agency’s size, whether it distributes funds, or whether

it is funded with taxpayer dollars. FHFA is an executive agency and is therefore subject to the Executive Order and PFCRA. Yet, it has not implemented either provision.

On March 12, 2014, OIG apprised FHFA of its responsibility to implement the government-wide suspension and debarment system and PFCRA and requested that the Agency advise what it intends to do to remedy these deficiencies.

On April 2, 2014, FHFA advised OIG that it would implement PFCRA. However, to date, FHFA has neither implemented PFCRA nor issued a draft regulation designed to do so. With regard to suspension and debarment, FHFA advised that it would not implement the government-wide suspension and debarment system. FHFA explained that as a nonappropriated agency, it is not required to comply with FAR, and that it does not make grants, cooperative agreements, loans, loan guarantees, or subsidies that invoke the application of the Executive Order.

2. FHFA Proposed Rule: FHLBank Membership (79 Fed. Reg. 54848 (September 12, 2014), RIN 2590-AA39)

FHFA proposed an amendment to its FHLBank membership regulation requiring each applicant and member institution to hold 1% of its total assets in home mortgage loans to satisfy the FHLBank Act’s mandate that member banks make “long-term home mortgage loans.” The FHLBank Act does not establish a minimum threshold for such investments, and FHFA exercised its discretion to set the threshold at 1% of assets. OIG urged FHFA to consider establishing a higher minimum threshold because such a 1% level could inadvertently decrease members’ cumulative commitment to home mortgage lending. In that regard, OIG noted that in the preamble to the draft proposed rule

FHFA states that Federal Financial Institutions Examination Council data shows that only 0.8% of the commercial banks and savings association members would have failed to comply with the proposed minimum threshold, and that the failure rate would rise to only 5% if the threshold were raised to 5% of assets. With respect to insurer members, the failure rates are higher (i.e., 16% if the threshold is established at 1%, and 41.5% at the 5% level), but still the overwhelming majority of members already meet an asset level that is five times what FHFA proposes to establish as its threshold. This higher level of performance by current members exists against a backdrop of FHFA's current requirement (i.e., 12 C.F.R. § 1263.6(c)), which does not include a quantitative threshold. Thus, it seems possible that members—upon learning that they now need to retain mortgage loans totaling only 1% of their assets to maintain eligibility for membership—may begin to divest their home loan investments that exceed the 1% minimum threshold. The proposed rule was published with the 1% minimum quantitative threshold intact.

3. FHFA Proposed Rule: Enterprise Housing Goals (79 Fed. Reg. 54482 (September 11, 2014), RIN 2590-AA65)

Section 1128 of HERA requires the establishment of annually adjustable benchmarks governing mortgage purchases. FHFA drafted a proposed rule that would establish the 2015-2017 goals for the Enterprises. OIG objected to FHFA's proposal to establish static housing goals for the next three years instead of assessing what the goals should be on an annual basis. Although FHFA may set up prospective single-family targets for up to three years, each year it must revisit those goals and assess whether to maintain them at their existing levels or revise them. FHFA's published proposed rule maintains the static housing goals set forth

in its draft proposal and does not require a yearly reassessment of those goals.

Additionally, OIG noted that the revised regulatory definition of “families in low-income areas” appears to conflict with the statutory definition found in the amended Federal Housing Enterprises Financial Safety and Soundness Act. FHFA's proposed rule omits “block numbering areas” from the calculus for determining whether families are in low-income areas, while the Safety and Soundness Act includes it. Despite OIG's warning that an agency may not exercise regulatory discretion where a statute is unambiguous and clear, FHFA opted to maintain the revised definition of the term “families in low-income areas” in the proposed rule that it published.

4. FHFA Draft Advisory Bulletin: Mortgage Servicing Transfers (AB 2014-06, OIG Comments Submitted on June 11, 2014)

OIG commented on a draft advisory bulletin concerning supervisory expectations for risk management practices in conjunction with the sale and transfer of MSR. Specifically, OIG expressed its concern that FHFA has opted to use a legally unenforceable mechanism to establish critical duties that are essential to the safe and sound operation of the Enterprises. OIG explained that because the advisory bulletin uses terms that read as suggestions (e.g., “should”) rather than as requirements (e.g., “shall,” “must,” “are required”), the actions FHFA hopes to facilitate are legally and practically unenforceable. OIG added that the use of an advisory bulletin in lieu of a legally enforceable regulation means that the Enterprises could approve MSR that are inconsistent with sound business practices, unaligned with the Enterprises' board-approved risk appetite, or out of compliance with regulatory and conservatorship requirements, and that FHFA would have no

legal recourse. Again, FHFA declined to convert the advisory bulletin into a proposed rule and published the final advisory bulletin without change.

Communications and Outreach

A key component of OIG’s mission is to communicate clearly with the GSEs, industry groups, other federal agencies, Congress, and the public. OIG facilitates clear communications through its targeted outreach efforts, hotline, coordination with other oversight organizations, and congressional statements and testimony.

Outreach

During the reporting period, OIG staff made over 45 presentations to law enforcement agencies, prosecutors, industry groups, and homeowners. The presentations to law enforcement officials were made to multiple mortgage fraud working groups across the country and individual federal agencies responsible for investigating mortgage fraud, such as HUD-OIG, the FBI, and the Secret Service. In addition, OI continued its partnership with the National District Attorneys Association to train local and state law enforcement officials and prosecutors throughout the country, putting on presentations in three cities: Cleveland, Ohio; Phoenix, Arizona; and San Diego, California.

With respect to presentations to housing professionals, OIG staff made presentations to professional organizations such as the Mortgage

Bankers Association, the Ohio Department of Commerce Division of Real Estate and Professional Licensing, and the National Association of Realtors. The presentations focused on fraud trends in the mortgage industry.

Hotline

OI operates a hotline that allows concerned parties to report directly and in confidence information regarding possible fraud, waste, or abuse related to FHFA or the GSEs. We honor all applicable whistleblower protections. As part of our effort to raise awareness of fraud and how to combat it, OIG promotes the hotline through our website, posters, emails targeted to FHFA and GSE employees, and our semiannual reports.

During the reporting period, the hotline received 960 contacts. Of the contacts received, that number includes: tips referred to OI for potential civil and/or criminal investigation, items referred to other agencies as they were not OIG-related issues, noncritical issues that received assistance, and complaints on OIG-related issues.

***Report fraud,
waste, or abuse
related to FHFA’s
programs and
operations
by visiting
www.fhfa.oig.gov
or calling
(800) 793-7724.***

Coordinating with Other Oversight Organizations

OIG shares oversight of federal housing program administration with several other federal agencies, including HUD, the Department of Veterans Affairs, the Department of Agriculture, and Treasury’s Office of Financial Stability (which manages the Troubled Asset Relief Program); their inspectors general; and other law enforcement organizations. To further the

oversight mission, we coordinate with these entities to exchange best practices, case information, and professional expertise. During the semiannual period ended September 30, 2014, we participated in the following cooperative activities:

- **RMBS Working Group.** OIG continued to take part in the activity of the RMBS Working Group, as discussed in “Civil Cases” (see page 40).
- **CIGIE.** OIG actively participates in several CIGIE committees and working groups.
 - The Inspection and Evaluation Committee established a working group to conduct a pilot “peer review” program for inspection and evaluation units in the inspector general community. The peer review is designed to assess organizations’ work under CIGIE’s *Quality Standards for Inspection and Evaluation* (January 2012) and to promote credibility of such work by validating the organizations’ work processes and evaluating their objectivity, independence, and rigorous adherence to applicable standards.
 - The Investigation Committee advises the inspector general community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. During this semiannual period, the committee coordinated with DOJ regarding implementation of the new recording policy.
- **Council of Inspectors General on Financial Oversight.** The Council of Inspectors General on Financial Oversight (CIGFO) was created by Dodd-Frank to oversee the Financial Stability Oversight Council (FSOC), which is charged with strengthening the nation’s financial system. OIG is a permanent member of CIGFO, along with the inspectors general of Treasury,

the FDIC, the SEC, and others. FSOC has issued a transparency policy that formalizes the commitment to conducting its business as openly and transparently as practicable given the confidential supervisory and sensitive information at the center of its work. OIG participates in a CIGFO working group, which conducted a review of FSOC’s compliance with its transparency policy. Specifically, the review assessed the extent to which FSOC’s operations are consistent with the expectations outlined in the transparency policy, including such requirements as holding open meetings on an annual basis and recording all votes on final and proposed rules, then reflecting those votes in the FSOC minutes. (The report is available at www.treasury.gov/about/organizational-structure/ig/Documents/CIGFO%20Audit%20July%202014.pdf.) Further, OIG is leading a CIGFO working group that will audit FSOC’s oversight of interest rate risk to the financial system. We will continue to report progress on this assignment, as well as the final results, in our semiannual reports.

Communicating with Congress

In fulfilling our mission, OIG works in close partnership with Congress and is committed to keeping it fully apprised of our oversight of FHFA. OIG met regularly with members of Congress and provided briefings to key congressional committees and offices. Briefing topics included recommendations from OIG reports and FHFA’s progress in implementing them, themes emerging in OIG’s body of work, OIG’s organization and strategy, and areas of ongoing work.

Additionally, we endeavor to inform Congress through responses to numerous technical assistance and information requests, as well as replies to formal written inquiries from members of Congress on various topics.

Copies of the Inspector General's written testimony to Congress are available at www.fhfaog.gov/testimony.

Section 2: FHFA and GSE Operations

Overview

In July 2008, HERA created FHFA to oversee vital components of our nation's secondary mortgage market.⁸ FHFA is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, the FHLBanks, and the FHLBanks' Office of Finance to promote their safety and soundness and to support housing finance, affordable housing, and a stable and liquid market.⁹

In this section, we provide an overview of FHFA and its relationship with the GSEs; a brief discussion of the GSEs' business models and financial results; and a summary of selected FHFA and GSE activities.

FHFA and the Enterprises

Under HERA, FHFA was appointed conservator of the Enterprises on September 6, 2008, and it serves as their regulator and conservator. As regulator, the Agency's mission is to ensure the Enterprises operate in a safe and sound manner and that their operations and activities contribute to a liquid, efficient, competitive, and resilient housing finance market.¹⁰ As conservator, the Agency seeks to conserve and preserve Enterprise assets.

FHFA accomplishes its mission by performing onsite examinations of the Enterprises; coordinating congressional, public, and consumer inquiries; assisting the Enterprises with foreclosure prevention actions; and developing and implementing a strategic plan for the future of the Enterprises' **conservatorships**.¹¹

The Enterprises were chartered by Congress to provide stability and liquidity in the secondary market for

home mortgages. They fulfill this charter by purchasing residential loans from loan originators that can use the sales proceeds to make additional loans.

Under HERA, the Enterprises receive financial support from Treasury to prevent their liabilities from exceeding their assets, subject to a cap.¹²

FHFA's and the Enterprises' Roles in Housing Finance

As the regulator of the Enterprises, FHFA has a statutory responsibility to ensure that they operate in a safe and sound manner and that their activities support a stable and liquid housing finance market.¹³

As Figure 7 (see page 49) illustrates, the Enterprises support the nation's housing finance system by providing liquidity to the secondary mortgage market. Liquidity is created when the Enterprises purchase mortgages that lenders—such as banks, credit unions, and other retail financial institutions—originated for homeowners.

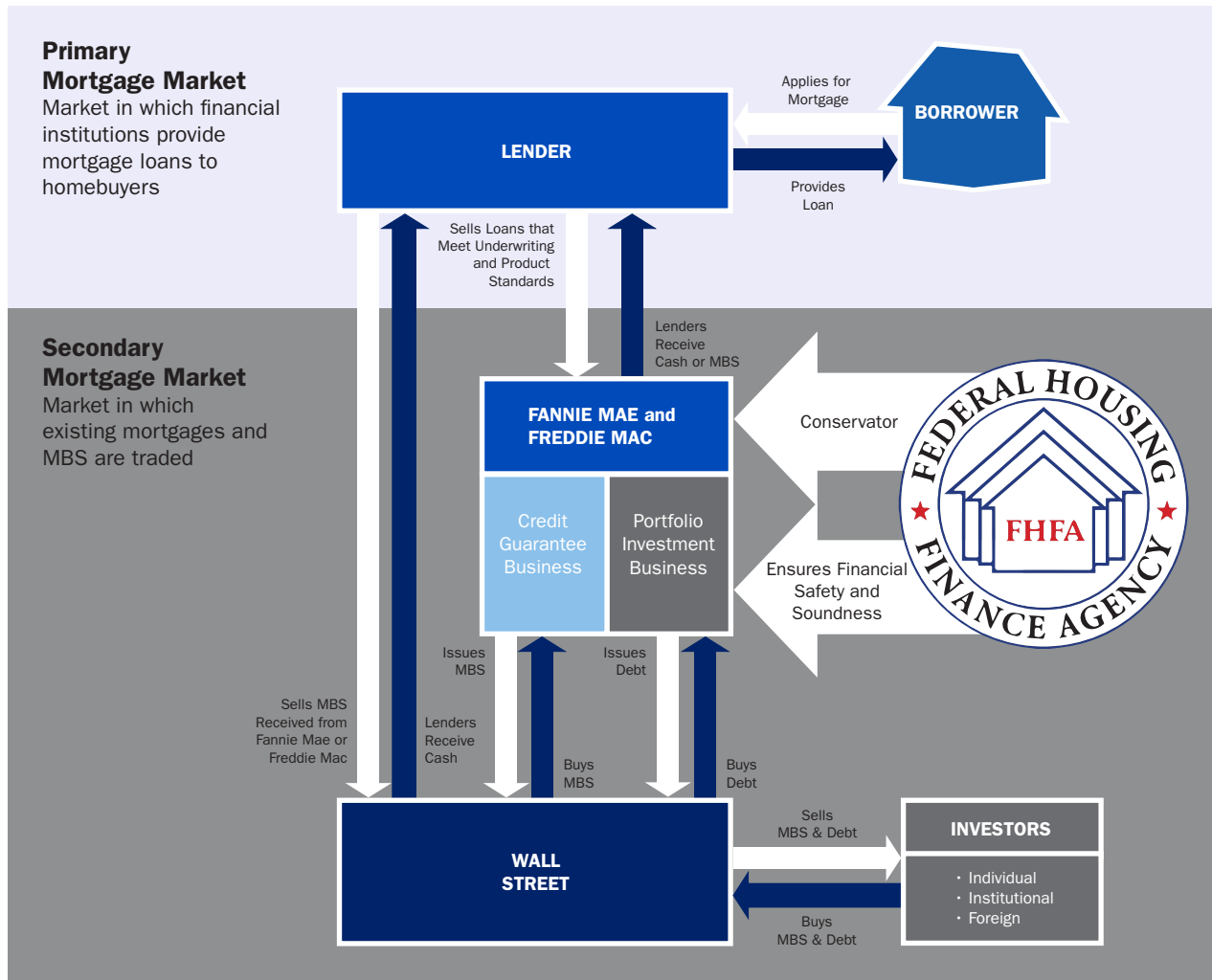
These mortgages are securitized by pooling and packaging them into MBS and are either sold or kept by the Enterprises as an investment. As part of this process, the Enterprises—for a fee—guarantee payment of principal and interest on the mortgages.

Historically, the Enterprises have benefited from an **implied guarantee** that the federal government would prevent default on their financial obligations, and the Enterprises assumed dominant positions in the residential housing finance market.¹⁴

Enterprises' Market Share of the Secondary Mortgage Market

As Figure 8 (see page 50) illustrates, after losing market share to nonagency competitors during

Figure 7. Overview of FHFA's and the Enterprises' Roles



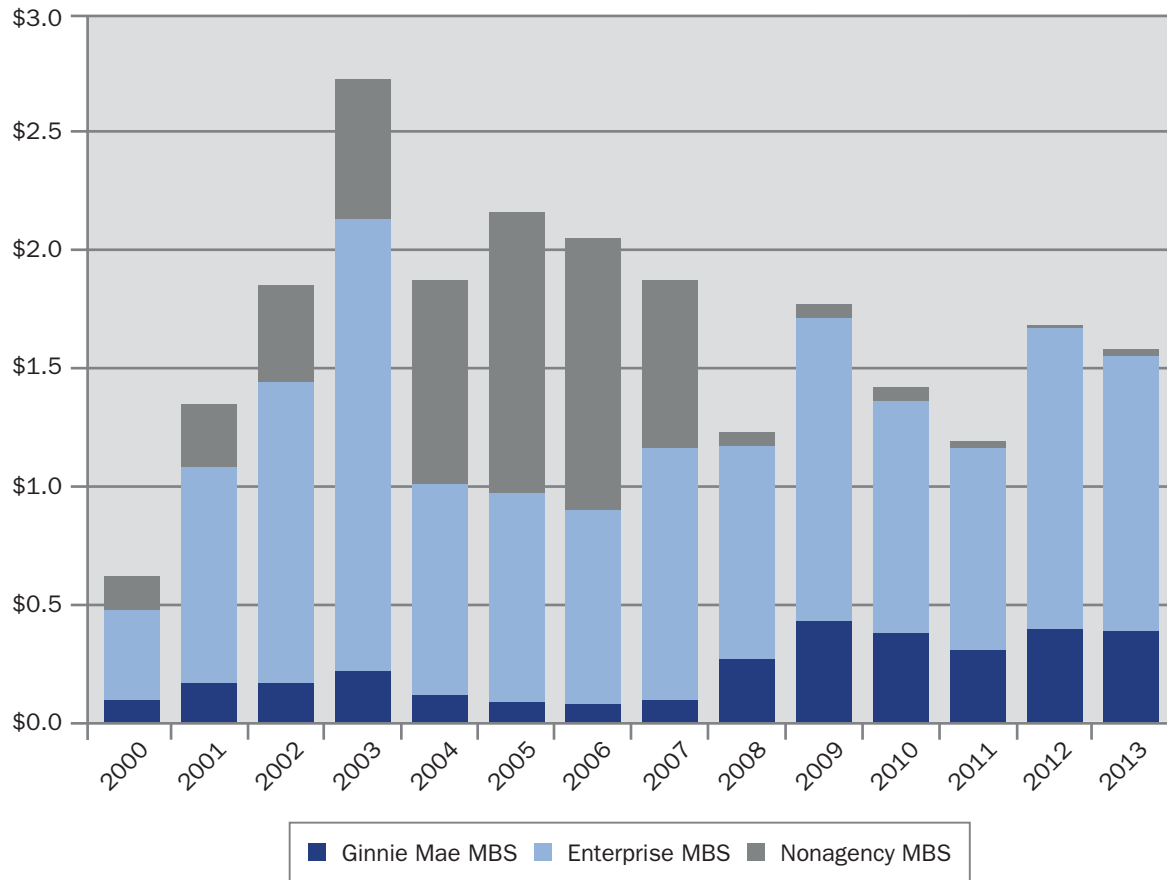
the housing boom from 2004 through 2007, the Enterprises regained dominant positions in the residential housing finance market (with the federal government's financial support) as the financial crisis continued and private-sector financing for the secondary market nearly disappeared.¹⁵ Since entering conservatorships in September 2008, the Enterprises have bought and **guaranteed** approximately three out of every four mortgages originated in the United States. By providing a majority of the liquidity to

the housing finance market, the Enterprises (and, therefore, the taxpayers) own a majority of the mortgage credit risk.¹⁶

Enterprises' Financial Performance

The Enterprises continued to report profits for the six months ended June 30, 2014. Since 2012, the

Figure 8. Primary Sources of MBS Issuances from 2000 to 2013 (\$ trillions)



Enterprises have remained profitable (see Figure 9, page 51) and have continued to offset their losses that began in 2007 (see Figure 10, page 51).¹⁷

As shown in Figure 11 (see page 51), Fannie Mae reported net income of \$9 billion for the six months ended June 30, 2014, compared with net income of \$68.8 billion for the same period in 2013.¹⁸ Freddie Mac reported net income of \$5.4 billion for the six months ended June 30, 2014, compared with net income of \$9.6 billion for the same period in 2013.¹⁹

While the Enterprises continued to be profitable, key year-over-year areas experienced declines, which resulted in lower net income. These areas include: (1) the release of **valuation allowances** against **deferred tax assets** in prior periods; (2) a decrease in net interest income due to the reduction of average balances in mortgage portfolios; (3) lower

credit-related income; and (4) **derivative losses** due to a decrease in interest rates.

In other areas the Enterprises saw improvements. These areas include: (1) continued improvements in the single-family business segment driven by stronger credit quality; (2) increases in guarantee fee income as a result of FHFA direction; (3) an increase in home prices causing a reduction in defaults; and (4) higher non-interest income as a result of settlement proceeds related to private-label securities litigation.

Release of Valuation Allowances Against Deferred Tax Assets

The release of the valuation allowances played a significant role in the Enterprises' 2013 profits. However, the Enterprises no longer maintain valuation allowances.²⁰

Figure 9. Enterprises' Annual Net Income (Loss) 2006 Through Second Quarter 2014 (\$ billions)

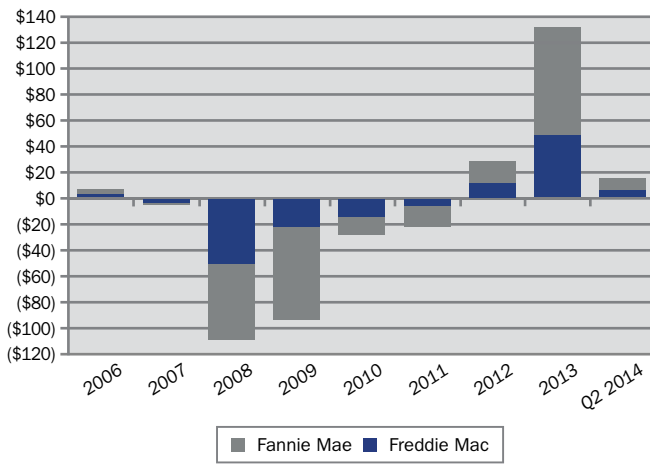
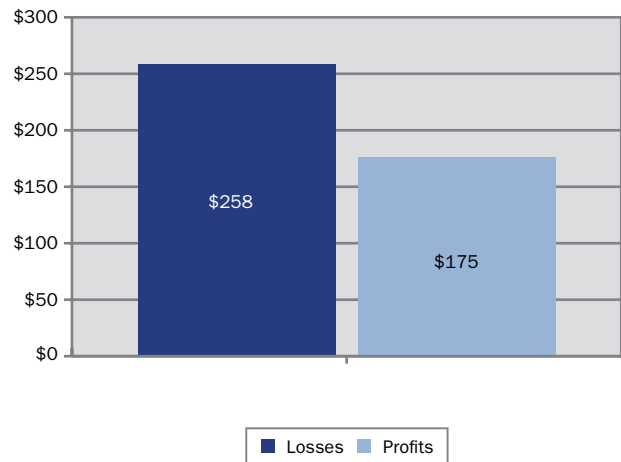


Figure 10. Enterprises' Combined Losses from 2007 Through 2011 and Combined Profits from 2012 Through Second Quarter 2014 (\$ billions)



The Enterprises were required to maintain valuation allowances for deferred tax assets that they determined may not be realized. This caused them to establish substantial valuation allowances during the years that they experienced net losses. In 2013, the Enterprises determined that the factors in favor of releasing the allowances outweighed the factors in favor of maintaining the allowances. Therefore, a key factor underlying the decrease in Fannie Mae's net income over the six months ended June 30, 2014, was the release of a substantial portion of its valuation allowance against deferred tax assets during the comparable period of 2013. Freddie Mac released its

full valuation allowance later in 2013, and as a result it did not experience as dramatic a decrease in net income for the six months ended June 30, 2014.²¹

Decrease in Net Interest Income Due to Mortgage Portfolio Reduction

One of the Enterprises' primary sources of revenue is net interest income. Net interest income is the difference between interest income earned on the assets in the retained mortgage portfolio and the interest expense associated with the debt that funds those assets.²²

Figure 11. Enterprises' Summary of Net Income for the Six Months Ended June 30, 2014, and 2013 (\$ billions)

	Fannie Mae		Freddie Mac	
	2014	2013	2014	2013
Net Interest Income	\$9.6	\$12.0	\$7.0	\$8.4
Credit-related Income	2.9	6.9	0.5	1.2
Gain (Loss) on Derivative Agreements	(2.5)	1.7 ^a	(4.3)	1.7
Impairment of Securities Considered Other-than-Temporary	(0.1)	(0.0)	(0.5)	(0.0)
Other Income (Expense)	3.4	(0.4)	5.1	(1.8)
Income Tax Benefit (Expense)	(4.3)	48.6	(2.4)	0.1
Net Income	\$9.0	\$68.8	\$5.4	\$9.6

^a Gain (loss) on derivatives referenced to Table 6, p. 21, in the Fannie Mae 2014 Second Quarter 10-Q Report.

Fannie Mae's net interest income for the six months ended June 30, 2014, was \$9.6 billion, compared with \$12 billion for the same period in 2013—a 19% decrease; Freddie Mac's net interest income for the six months ended June 30, 2014, was \$7 billion, compared with \$8.4 billion for the same period in 2013—a 17% decrease.²³

The decreases in the Enterprises' net interest income were primarily due to the continued reduction of their retained mortgage portfolios, as mandated by the **Senior Preferred Stock Purchase Agreements (PSPAs)**. Under the PSPAs, the Enterprises are required to reduce the size of their retained mortgage portfolios by 15% each year until the amount of the Enterprises' retained portfolios reach \$250 billion by 2018.²⁴ As of June 30, 2014, Fannie Mae owned \$452.8 billion in mortgage assets, compared with \$490.7 billion as of December 31, 2013. As of June 30, 2014, Freddie Mac owned \$420 billion in mortgage assets, compared with \$461 billion as of December 31, 2013.²⁵

Declines in Credit-Related Income as a Result of Lower Benefits for Credit Losses

Fannie Mae's credit-related income (comprised of foreclosed property income and the benefit for credit losses) for the six months ended June 30, 2014, was \$2.9 billion, compared with credit-related income of \$6.9 billion over the same period in 2013.²⁶ Freddie Mac's credit-related income for the six months ended June 30, 2014, was \$524 million, compared with credit-related income of \$1.2 billion over the same period in 2013.²⁷

The benefit for credit losses decreased significantly for the Enterprises. Fannie Mae recognized a benefit for credit losses for the six months ended June 30, 2014, of \$2.4 billion, compared with a benefit for credit losses of \$6.3 billion over the same period in 2013—a 62% decrease.²⁸ Freddie Mac recognized a benefit for credit losses for the six months ended June 30,

2014, of \$533 million, compared with \$1.1 billion over the same period in 2013—a 53% decrease.²⁹

The decreases in the benefit for credit losses were, in part, the result of moderate home price increases that, year-over-year, were lower for the six months ended June 30, 2014.³⁰

Decrease in Interest Rates Leads to Derivative Losses

The Enterprises use **derivative** instruments to manage the interest rate and prepayment risk associated with their investments in mortgage loans and mortgage-related securities.³¹ Derivative instruments include written **options**, interest rate swap guarantees, and short-term default guarantee commitments.³²

Fannie Mae's derivative losses for the six months ended June 30, 2014, were \$2.5 billion, compared with a gain of \$1.7 billion for the same period in 2013. Freddie Mac's derivative losses for the six months ended June 30, 2014, were \$4.3 billion, compared with a gain of \$1.7 billion for the same period in 2013.³³

These overall derivative losses were primarily due to long-term interest rate decreases during the first six months of 2014.³⁴

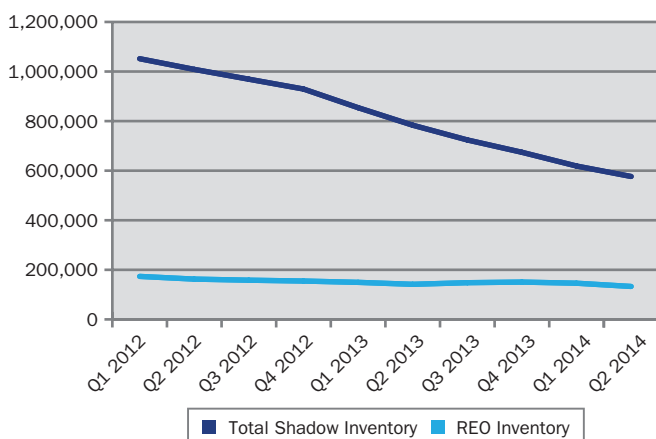
Continued Improvement in Credit Quality of New Single-Family Business

The Enterprises' single-family books of business consist of loans purchased and guaranteed that generate interest and guarantee fee income. The credit quality of the single-family loans acquired by the Enterprises beginning in 2009 is significantly better than that of loans acquired from 2005 to 2008, as measured by **loan-to-value (LTV)** ratios, FICO scores, and the proportion of loans underwritten with fully documented income.³⁵

This improved credit quality is attributed to: (1) more stringent credit policies and underwriting standards; (2) tighter mortgage insurers' and lenders' underwriting practices; and (3) fewer purchases of loans with higher-risk attributes (e.g., **Alt-A**, interest-only, credit scores below 620, and LTV ratios above 90%).³⁶

Further, the Enterprises are now holding more loans with higher credit quality acquired from 2009 to present in their single-family books of business. As of June 30, 2014, loans acquired after 2008 comprised 79% and 77%, respectively, of Fannie Mae's and Freddie Mac's books of business.³⁷ The legacy housing boom loans acquired from 2005 through 2008, which have a higher probability of credit defects, have declined to 13% of the single-family book of business for Fannie Mae and 15% for Freddie Mac as of June 30, 2014, compared with 17% and 19%, respectively, as of June 30, 2013.³⁸ A continued improvement in the credit quality of each Enterprise's single-family book of business was due, in part, to a decline in the number of delinquent loans.³⁹

Figure 12. Decline in Seriously Delinquent Loans and REO Inventory



Improved credit quality attributed in part to more stringent credit policies and underwriting standards.

As the credit quality in the Enterprises' single-family books of business has improved, the number of seriously delinquent loans (also known as the shadow inventory) has declined (see Figure 12, below).⁴⁰

As of June 30, 2014, the Enterprises' combined shadow inventory (loans that are considered to be 90 or more days delinquent or in the process of foreclosure) totaled 576,596 loans, compared with 783,438 as of June 30, 2013—a 26% decrease.⁴¹ For the six months

ended June 30, 2014, Fannie Mae disposed of 70,007 single-family properties, compared with 83,569 for the same period in 2013.⁴² For the six months ended June 30, 2014, Freddie Mac disposed of 36,149 single-family properties, compared with 38,747 for the same period in 2013.⁴³

Guarantee Fee Prices

A significant source of income for the Enterprises comes from receiving guarantee fees.⁴⁴ The Enterprises receive these fees for taking the risk of loan default and providing MBS investors with a guarantee for principal and interest payments.⁴⁵

Fannie Mae's combined single-family and multifamily guarantee fee income for the six months ended June 30, 2014, was \$6.4 billion, compared with \$5.5 billion for the same period in 2013—a 16% increase. Freddie Mac's combined single-family and multifamily guarantee fee income for the six months ended June 30, 2014, was \$2.5 billion, compared with \$2.6 billion for the same period in 2013—a 3.5% decrease.⁴⁶

In 2012, FHFA directed the Enterprises to increase their average guarantee fees.⁴⁷ Fannie Mae's guarantee

fee income increased for the six months ended June 30, 2014, compared with the same period in 2013; this is a result of: (1) loans with higher guarantee fees have become a larger part of its single-family book of business due to the cumulative impact of guarantee fee price increases implemented in 2012; and (2) increased amortization of **upfront fees**.⁴⁸ Freddie Mac, however, experienced a small decline in guarantee fee income for the six months ended June 30, 2014, compared with the same period in 2013, as a result of decreased amortization of upfront fees resulting from higher interest rates and lower refinancing activity.⁴⁹

Additional increases to the guarantee fees were planned to take effect in March and April 2014. However, on January 8, 2014, FHFA announced that it had directed the Enterprises to delay these increases until further evaluation could be completed.⁵⁰ In June 2014, FHFA requested public input on its guarantee fee policy and implementation. FHFA sought opinions on the optimum level of guarantee fees required to protect taxpayers from credit losses on Enterprise MBS and implications for mortgage credit availability.⁵¹ The comment period ended on September 8, 2014.⁵²

Impact of Home Prices on Credit Losses

A factor positively influencing credit losses is home prices. An increase in home prices can decrease the likelihood that loans will default and reduce the estimated credit losses on the loans that do default.⁵³ The S&P/Case-Shiller Home Price Index shows a decrease in the index for each quarter in 2011. Then, beginning in the first quarter of 2012 through the first quarter of 2014, it shows a steady increase; in the second quarter of 2014, however, the index experienced a marginal decrease (see Figure 13, page 55). Overall, since 2013, the index has increased by 8.1%, year-over-year, as of June 30, 2014.⁵⁴

Proceeds from Private-Label Securities Litigation

In 2011, FHFA, on behalf of the Enterprises, initiated litigation against 18 financial institutions alleging securities violations in the sale of **private-label MBS** to the Enterprises. During the six months ended June 30, 2014, FHFA settled a number of these lawsuits. As a result, Fannie Mae's mortgage-related securities settlements for the six months ended June 30, 2014, were \$4.2 billion, compared with \$145 million for the same period in 2013, and Freddie Mac's were \$4.9 billion, compared with \$111 million for the same period in 2013—both substantial increases.⁵⁵

Settlement proceeds related to private-label securities litigation are recorded as other non-interest income and affect the non-interest income portion of the income statement. The proceeds from the settlement agreements contributed to the Enterprises' continued financial improvement.⁵⁶

Fannie Mae's non-interest income for the six months ended June 30, 2014, was \$3.2 billion, compared with \$3.1 billion for the same period in 2013.⁵⁷ Freddie Mac's non-interest income for the six months ended June 30, 2014, was \$1.7 billion, compared with \$1.1 billion for the same period in 2013.⁵⁸

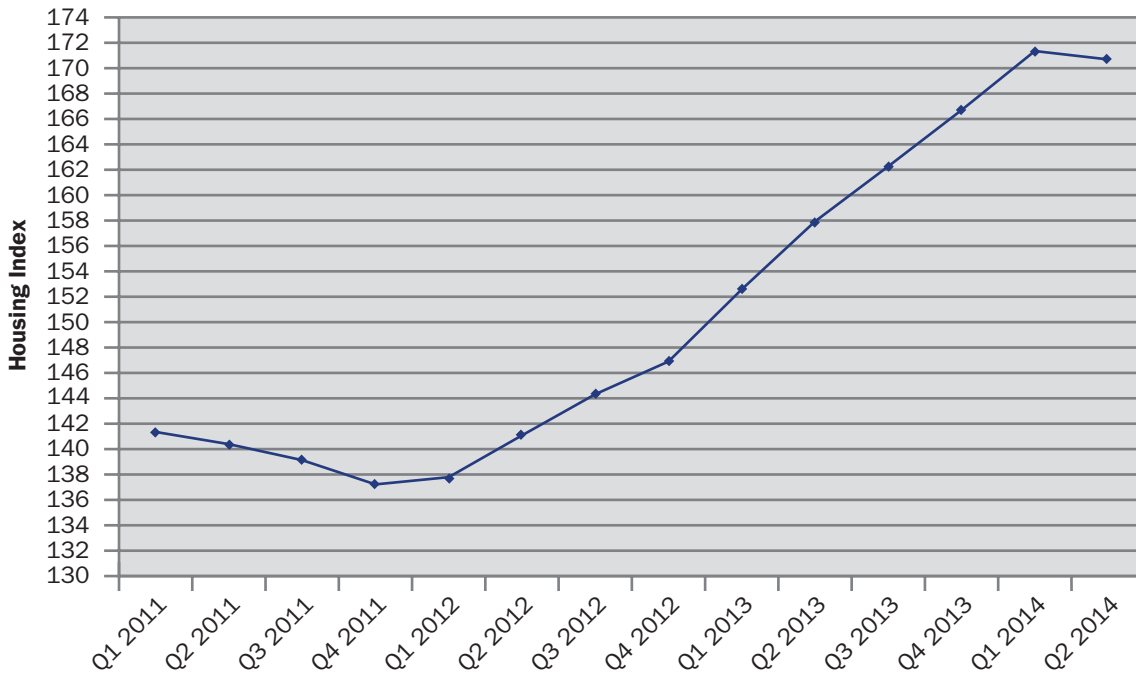
Government Support

Due to their continued profitability, as of September 30, 2014, the Enterprises did not request a draw from Treasury in 2014 to date and are paying significant dividends.

Draw Requests and Dividend Payments Due Under the PSPAs

In August 2012, FHFA and Treasury agreed to a third amendment to the PSPAs that, among other things,

Figure 13. Home Price Index 2011 Through Second Quarter 2014



replaced the fixed dividend rate the Enterprises pay as of the first quarter of 2013. The modification called for a full net worth sweep of all future Enterprise earnings, with a quarterly sweep of every dollar of net worth, instead of a fixed percentage dividend payment. This was intended to end the circular practice of the Enterprises drawing funds from Treasury in order to pay dividends back to Treasury. The Enterprises' net worth (above a specified buffer amount, which was initially \$3 billion) is now effectively distributed to Treasury; for the six months ended June 30, 2014, approximately \$27.8 billion was distributed, with an additional \$5.6 billion paid in the third quarter of 2014.⁵⁹

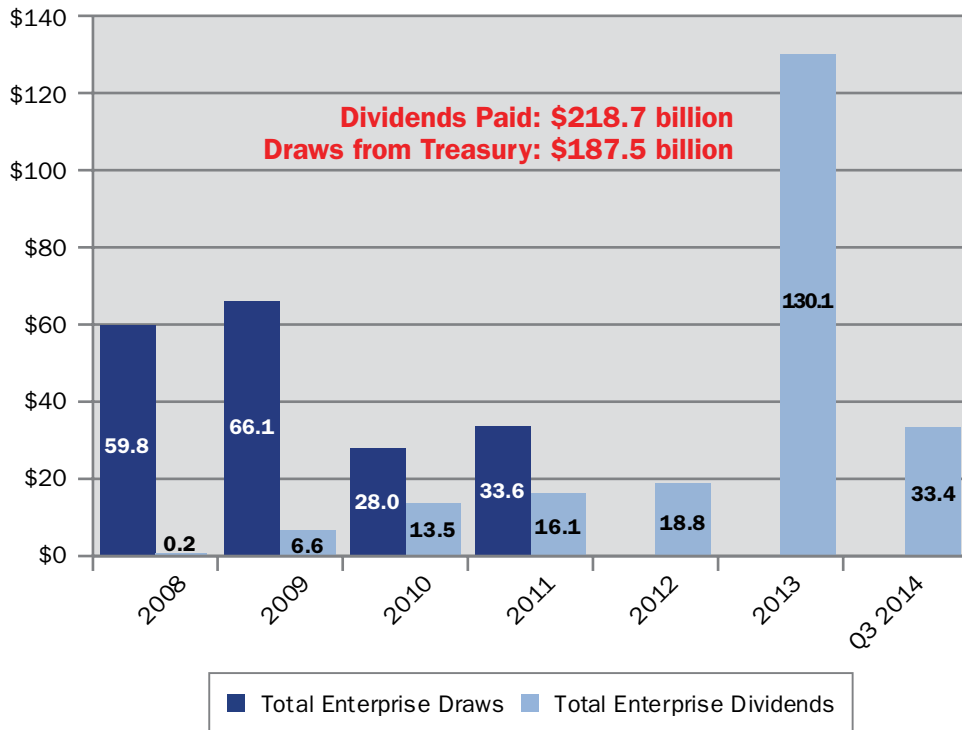
Fannie Mae's net worth as of June 30, 2014, was \$6.1 billion, a decrease from \$9.6 billion as of December 31, 2013. This was primarily due to its payment to Treasury of \$12.9 billion in senior **preferred stock** dividends during the first six months of 2014, partially offset by its comprehensive net income of \$9.4 billion for the six months ended

June 30, 2014. As a result, Fannie Mae did not request a draw from Treasury in 2014 under the PSPA.⁶⁰

Freddie Mac's net worth as of June 30, 2014, was \$4.3 billion, a decrease from \$12.8 billion as of December 31, 2013, primarily due to its payment to Treasury of \$14.9 billion in senior preferred stock dividends during the first six months of 2014, partially offset by comprehensive net income of \$6.4 billion for the six months ended June 30, 2014. As a result, Freddie Mac did not request a draw from Treasury in 2014 under the PSPA.⁶¹

For the third quarter of 2014, Fannie Mae and Freddie Mac made additional payments of \$3.7 billion and \$1.9 billion, respectively, under the terms of the PSPAs. As of September 30, 2014, Fannie Mae and Freddie Mac have paid Treasury a total of \$130.5 billion and \$88.2 billion, respectively, in dividends on the senior preferred stock.⁶² These dividend payments do not reduce the principal balance of Treasury's investments in the Enterprises.⁶³

Figure 14. Enterprises' Treasury Draws and Dividend Payments Due Under PSPAs (\$ billions)



As of September 30, 2014, Fannie Mae’s total draws from Treasury under the PSPA remain at \$116.2 billion and Freddie Mac’s remain at \$71.3 billion. Since the conservatorships began in 2008 through September 30, 2014, the Enterprises have drawn a total of \$187.5 billion from Treasury and paid \$218.7 billion in dividends (see Figure 14, above).⁶⁴

Additional Government Support

The Enterprises also benefited from extraordinary government measures to support the housing market overall. During the period from September 2008 through March 2010, the Federal Reserve and Treasury purchased more than \$1.3 trillion in Enterprise MBS through the **GSE MBS Purchase Facility**. Additionally, the Federal Reserve purchased nearly \$135 billion of **bonds** issued by the Enterprises.⁶⁵ The Federal Reserve became the predominant purchaser of MBS during its purchase

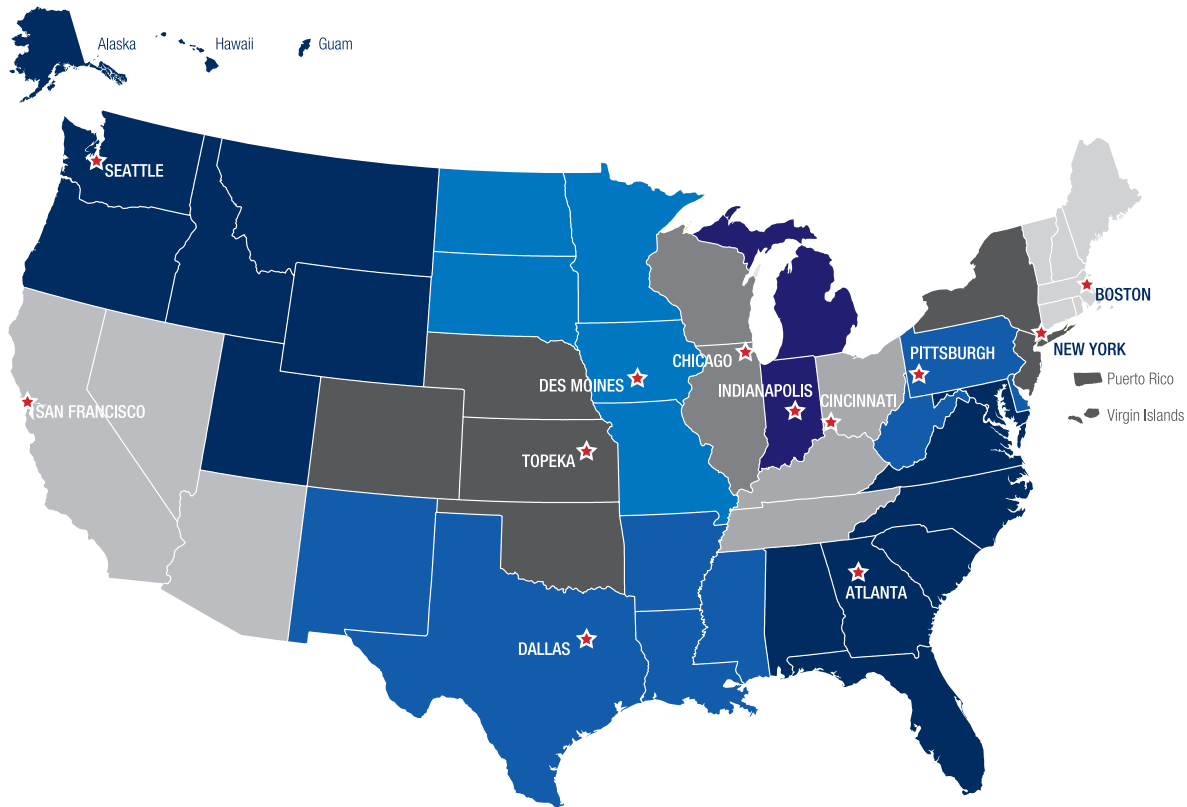
programs, and its purchases helped to support the nation’s housing finance system.⁶⁶

Treasury’s last purchase of Enterprise MBS, through the purchase facility, was in December 2009, while the Federal Reserve last purchased Enterprise MBS through the same facility in March 2010. However, as of September 30, 2014, the Federal Reserve continues to purchase Enterprise MBS through the Open Market Trading Desk at the Federal Reserve Bank of New York. Between September 2012 and December 2013, purchases were at a pace of \$40 billion per month; that rate has since decreased to a pace of \$10 billion per month. This pace does not include purchases to replace paid down principal.⁶⁷

FHLBank System

The FHLBanks are GSEs, federally chartered but privately **capitalized** and independently managed

Figure 15. Regional FHLBanks



by a board of directors. The 12 regional FHLBanks together with the Office of Finance, the fiscal agent of the FHLBanks, comprise the FHLBank System. All FHLBanks and the Office of Finance operate under the supervisory and regulatory framework of FHFA.⁶⁸ FHFA's stated mission with respect to the FHLBanks is to provide effective supervision, regulation, and housing mission oversight to promote the FHLBanks' safety and soundness, support housing finance and affordable housing, and facilitate a stable and liquid mortgage market.⁶⁹

The FHLBank System was created in 1932 to improve the availability of funds for home ownership, and its mission is to provide local lenders with readily available, low-cost funding to finance housing, jobs, and economic growth.⁷⁰ The 12 FHLBanks fulfill this mission primarily by providing secured loans known as advances to their members, resulting in an increased availability of credit for residential

mortgages, community investments, and other housing and community development services.⁷¹

The FHLBanks are cooperatives that are owned privately and wholly by their members. Each FHLBank operates as a separate entity within a defined geographic region of the country, known as its district, with its own board of directors, management, and employees. Each member of an FHLBank must purchase and maintain capital stock as a condition of its membership.⁷² FHLBank members include financial institutions such as **commercial banks, thrifts, insurance companies, and credit unions.**⁷³ Figure 15 (see above) provides a map of the districts of the 12 FHLBanks.

The primary business of the FHLBanks is to raise funds in the capital markets by issuing debt, known as consolidated obligations, through the Office of Finance and to use the consolidated obligations to provide their members with advances.⁷⁴ In the

event of a default on a consolidated obligation, each FHLBank is **jointly and severally liable** for losses, which means that each individual FHLBank is responsible for the principal and interest on all consolidated obligations issued by the FHLBanks.⁷⁵ However, like the Enterprises, the FHLBank System has historically enjoyed benefits (e.g., debt costs akin to those associated with Treasury bonds) stemming from an implicit government guarantee of its consolidated obligations.⁷⁶

FHLBanks' Combined Financial Performance

The regional housing markets affect the FHLBanks' demands for advances from member institutions to fund residential mortgage loans. During the six months ended June 30, 2014, FHLBank members' borrowing increased, due in part to growth in economic activity, which resulted in a stable environment for debt issuance. Further, during this period, the demand for advances continued to increase due to high member borrowing, particularly by large-asset members. However, as the average balances of advances and investments increased, the yields on interest-earning assets and the average balances of mortgage loans decreased, which contributed to the overall decline in interest income.⁷⁷

The primary source of each FHLBank's earnings is net interest income, which is the interest earned on advances, investments, and mortgage loans, less the interest paid on consolidated obligations, deposits, and other borrowings.⁷⁸ Fluctuations in short-term interest rates affect the FHLBanks' interest income and expense because a considerable portion of the FHLBanks' assets and liabilities are either directly or indirectly tied to short-term interest rates.⁷⁹

For the six months ended June 30, 2014, compared with the same period in 2013, interest income decreased as average short-term interest rates generally

decreased, resulting in lower returns on mortgage loans, advances, and investments. This was partially offset by lower interest expense on interest-bearing liabilities that were the result of the issuance of new consolidated obligations, including the effect of redemptions and refinancing higher-cost consolidated obligations.⁸⁰ As shown in Figure 16 (see below), the combined effects of declines in non-interest income and increases in non-interest expense, partially offset by a marginal increase in net interest income, resulted in an 18% decrease in the FHLBanks' net income for the six months ended June 30, 2014, compared to the same period in 2013.⁸¹

Decrease in Interest Income

Returns on interest-earning assets—the main factor influencing net income—are largely derived from interest income on advances, investments, prepayment fees, and mortgage loans. For the six months ended June 30, 2014, interest income decreased from \$4.2 billion to \$4 billion—a 5% decline compared with the same period in 2013. Interest on advances makes up a significant

Figure 16. FHLBanks' Net Income for the Six Months Ended June 30, 2014, and 2013 (\$ millions)

	2014	2013
Interest Income	\$4,035	\$4,255
Interest Expense	(2,319)	(2,573)
Net Interest Income	1,716	1,682
Reversal of (Provision for) Credit Losses	15	10
Other-than-Temporary Impairment Losses ^a	(6)	(6)
Derivative and Hedging Gains (Losses)	(114)	293
Other Income (Loss)	91	(103)
Total Non-interest Expense	(502)	(422)
Total Assessments	(131)	(144)
Net Income	\$1,069	\$1,310

^a Private-label MBS accounted for the FHLBanks' other-than-temporary impairment losses for the six months ended June 30, 2014, and 2013.

portion of interest income (\$1.26 billion in 2014 and \$1.28 billion in 2013), and the decline was minimal—or 1%. Interest income on investments decreased from \$1.94 billion to \$1.88 billion—a 3.5% decline—for the six months ended June 30, 2014, compared with the same period in 2013. Also during this period, interest income on prepayment fees was reduced from \$64 million to \$32 million—or 50%—and interest income on mortgage loans decreased from \$969 million to \$866 million—an 11% decline—compared with the same period in 2013.⁸²

Interest Expense

During the six months ended June 30, 2014, interest expense declined from \$2.6 billion to \$2.3 billion—or 10%—compared with the same period in 2013, which helped to prevent additional declines in net interest income. The decrease was driven by lower yields on new consolidated obligations, including the effect of redemptions and refinancings of higher-cost consolidated obligations. The refinancing of consolidated obligations, which resulted in lower interest payments, was a key contributor to this decline. Due to these lower payments, consolidated obligation expenses decreased from \$2.5 billion to \$2.2 billion—or 11%—for the six months ended June 30, 2014, compared with the same period in 2013.⁸³

Derivative and Hedging Activity

The FHLBanks are exposed to interest rate risk primarily from the effect of interest rate changes on their interest-earning assets, as well as the funding sources for these assets. The goal of the FHLBanks is not to eliminate interest rate risk entirely but to manage it within appropriate limits. To achieve this goal, the FHLBanks use derivatives (e.g., **interest rate swaps**, options, and **swaptions**), which help reduce funding costs, maintain favorable interest rate spreads, and manage overall assets and liabilities.⁸⁴

Net losses from derivative and **hedging** activities were \$114 million for the six months ended June 30, 2014, compared with net gains of \$293 million for the same period in 2013—a substantial change.⁸⁵ The net losses from derivatives and hedging activities for the six months ended June 30, 2014, were due primarily to changes in the fair value of derivatives not designated as qualifying accounting hedges, particularly economic hedges. The FHLBanks use economic hedges for asset-liability management and for accounting purposes; these derivatives are treated differently than other types of derivatives because they do not meet certain hedging criteria.⁸⁶

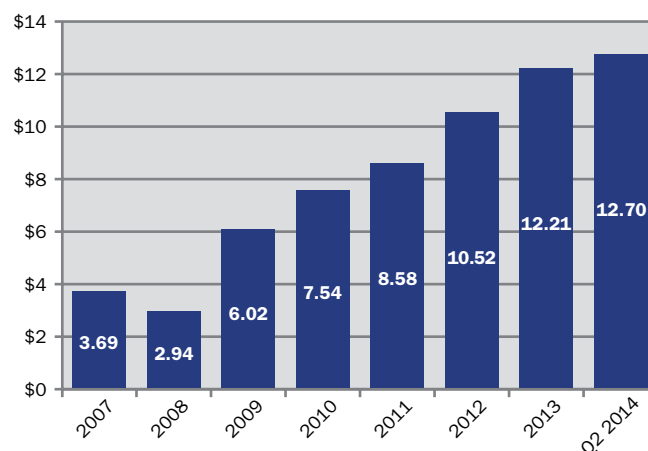
Non-interest Expense

Non-interest expense for the six months ended June 30, 2014, increased from \$422 million to \$502 million compared to the same period in 2013, an increase of 19%. The increase was primarily due to a one-time reduction in expenses of \$50 million in the second quarter of 2013 by the FHLBank of Chicago.⁸⁷

Retained Earnings

As shown in Figure 17 (see below), the FHLBanks' combined year-end retained earnings have increased every year for the last six years and now exceed

Figure 17. FHLBanks' Retained Year-End Earnings 2007 Through Second Quarter 2014 (\$ billions)



\$12 billion as of June 30, 2014.⁸⁸ As long as the FHLBanks are profitable, retained earnings should continue to increase because of the Joint Capital Enhancement Agreement provisions adopted by the FHLBanks in 2011. The agreement calls for the FHLBanks to set aside 20% of their net income into a separate, restricted retained earnings account.⁸⁹ The joint capital enhancements help to provide members' access to liquidity during times of economic stress, create an additional buffer to absorb FHLBank losses, provide protection on members' capital investments, and provide additional assurance that the FHLBanks will meet their consolidated obligations.⁹⁰

Selected FHFA and GSE Activities

Over the last six months, there were several significant FHFA and GSE developments related to: swap margin requirements; proposed revisions to FHLBank membership eligibility requirements; proposed Enterprise housing goals for 2015-2017; requirements for private mortgage insurance companies that insure loans owned or guaranteed by the Enterprises; proposed amendments to require the FHLBanks and the Office of Finance to collect demographic data about their boards of directors; public input regarding the implementation of guarantee fee changes; proposed structure for the issuance of a Single Security; recovery of Enterprise losses stemming from alleged violations of securities laws in the sale of private-label MBS; and FHFA and GSE performance. These developments are summarized in the following section.

FHFA sought comment on a proposed rule that would revise the requirements for membership in one of the 12 FHLBanks.

Dodd-Frank Requirements

Swap Margin Requirements

In September 2014, FHFA and four other federal agencies sought comment on a proposed rule to establish **margin requirements** for **swap dealers**, major swap participants, security-based swap dealers, and major security-based swap participants as required by Dodd-Frank. The proposed rule would establish minimum requirements for the exchange of initial and variation margin between covered swap entities and their counterparties to **non-cleared swaps** and non-cleared security-based swaps. The amount of margin that would be required under the proposed rule would vary based on the relative risk of the counterparty and of the non-cleared swap or non-cleared security-based swap. The margin requirements mandated by Dodd-Frank are intended to address a number of weaknesses in the regulation and structure of the swap markets that were revealed during the recent financial crisis. The requirements are intended to reduce risk, increase transparency, and promote market integrity. In addition to FHFA, the other four agencies making the proposal are the Federal Reserve Board, the Farm Credit Administration, the FDIC, and the Office of the Comptroller of the Currency.⁹¹

Mortgage Industry Standards

FHFA's Proposed Revisions to FHLBank Membership Eligibility Requirements

In September 2014, FHFA sought comment on a proposed rule that would revise the requirements for financial institutions to apply for and retain membership in one of the

12 FHLBanks. The goal of FHFA's proposed rule is to ensure that members maintain a commitment to housing finance and that only eligible entities can gain access to Bank advances and the benefits of membership. To achieve these goals, the proposed rule would establish a new quantitative test requiring all members to hold 1% of their assets in home mortgage loans on an ongoing basis. Currently, applicants for membership need only demonstrate a nominal amount of home mortgage loans on their balance sheet at the time of their application but not thereafter. The proposed rule would also require certain members that are subject to the 10% residential mortgage loans requirement to adhere to this requirement on an ongoing basis. Currently, these members are subject to the 10% residential mortgage loans requirement only when they initially apply for membership. It would also define "insurance company" to mean a company that has as its primary business the underwriting of insurance for nonaffiliated persons, thereby excluding captive insurers from membership so as to prevent entities not eligible for membership from gaining access to FHLBank advances through a captive insurer. Membership of existing captive insurers would phase out over five years with defined limits on advances.⁹² Consistent with the Inspector General Act, OIG assessed the proposed rule and provided comment, which can be found on pages 43 to 44.

FHFA's Proposed 2015-2017 Housing Goals for the Enterprises

In August 2014, as required by HERA, FHFA proposed a rule that would establish single-family and multifamily housing goals for the Enterprises for 2015 through 2017. The current housing goals are effective until the end of 2014. The proposed rule offers three alternative approaches for establishing single-family housing goals. The first approach uses the current two-step process, which involves setting both a prospective benchmark level and a

retrospective market-level measure based on data collected under the **Home Mortgage Disclosure Act**. The proposed benchmarks would maintain the low- and very low-income family home purchase goals of 23% and 7%, respectively, the same levels as the current single-family benchmark goals. Under the proposed rule, the benchmark subgoal for low-income area home purchases would be increased from the current 11% to 14%, and the benchmark low-income families refinance goal would be increased from the current 20% to 27%. The second alternative approach would set only prospective benchmark levels, and the third proposed approach would use only the retrospective market-level measure. The proposed rule also includes benchmark levels for multifamily housing goals and would establish for the first time a subgoal for small, multifamily properties of 5-50 units that are affordable to low-income families.⁹³ Consistent with the Inspector General Act, OIG assessed the proposed rule and provided comment, which can be found on page 44.

FHFA's Proposed Draft Requirements for Private Mortgage Insurance Companies

In July 2014, FHFA sought input on draft requirements for private mortgage insurance companies that insure mortgage loans owned or guaranteed by the Enterprises. The Enterprises are required by their charters to obtain credit enhancement, such as private mortgage insurance, for loans they purchase or securitize that have LTV ratios that exceed 80%. By using private mortgage insurance from a sound counterparty, the first-loss exposure is shifted from the taxpayers to the private market.⁹⁴ FHFA's *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* called on the Enterprises to strengthen the requirements for private mortgage insurance companies that do business with them as part of the goal to shift risk away from the Enterprises and protect taxpayers.⁹⁵

As conservator of the Enterprises, FHFA has directed Fannie Mae and Freddie Mac to revise, expand, and align their risk management requirements for mortgage insurance counterparties. FHFA's draft requirements are part of its multiyear effort to produce a clear and comprehensive set of standards. The updated financial requirements incorporate a new, risk-based framework that is meant to ensure that approved insurers have a sufficient level of liquid assets with which to pay claims. The draft requirements also include enhanced operational performance expectations and provide remedial actions that would apply if an insurer failed to comply with the revised requirements.⁹⁶

FHFA's Proposed Amendments to Regulation on Minority and Women Inclusion

In June 2014, FHFA proposed to amend its regulation on minority and women inclusion by requiring the FHLBanks and the Office of Finance to include in the contents of their annual reports certain demographic information related to their boards of directors as well as a description of their related activities during the reporting year.⁹⁷ The current regulation does not require the FHLBanks or the Office of Finance to collect demographic data about the boards of directors. FHFA believes that requiring the FHLBanks and the Office of Finance to report on the demographic profile of their boards will help promote demographic diversity.⁹⁸

FHFA's Request for Input on Guarantee Fees

In June 2014, FHFA requested input from the public on the guarantee fees that the Enterprises charge lenders.⁹⁹ In January 2014, the FHFA Director suspended the implementation of guarantee fee changes announced by FHFA in December 2013. FHFA had planned to increase the base guarantee

fee for all mortgages by 10 **basis points**, update the upfront guarantee fee grid, and eliminate the upfront 25 basis point adverse market fee that has been assessed on all mortgages purchased by the Enterprises since 2008.¹⁰⁰ FHFA's request for input included questions related to guarantee fee policy and the optimum level of guarantee fees required to protect taxpayers, as well as the implications of increased guarantee fees for mortgage credit availability.¹⁰¹ FHFA extended the deadline for guarantee fee input from August 4, 2014, to September 8, 2014, to coincide with the deadline for FHFA's request for input on draft private mortgage insurer eligibility requirements.¹⁰²

Market Liquidity Initiative

In August 2014, FHFA published a request for input on the proposed structure for a Single Security, a type of mortgage-backed bond that would be issued and guaranteed by Fannie Mae or Freddie Mac. The development of the Single Security is a key goal of FHFA's *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* and is a 2014 Scorecard item for the Enterprises. FHFA's Single Security project is intended to improve the overall liquidity of the Enterprises' MBS by creating a Single Security that is eligible for trading in the to-be-announced (TBA) market, where buyers and sellers of MBS agree to terms in advance of specifying which pools of mortgages will back the bonds. FHFA requested public input on all aspects of the proposed Single Security structure, especially issues regarding the transition from the current system to a Single Security. FHFA's specific questions relate to TBA eligibility, legacy Enterprise securities, potential effects on the industry, and risk of market disruption. FHFA requested input by October 13, 2014.¹⁰³

Figure 18. FHFA's Private-Label Securities Settlements to Date

Bank	Settlement Amount	Settlement Announcement Date
General Electric Company	\$6.25 million	January 2013
CitiGroup Inc.	\$250 million	May 2013
UBS Americas Inc.	\$885 million	July 2013
Wells Fargo Bank, N.A. ^a	\$335.23 million	September 2013
JPMorgan Chase & Co.	\$4 billion	October 2013
Ally Financial Inc.	\$475 million	October 2013
Deutsche Bank AG	\$1.925 billion	December 2013
Morgan Stanley	\$1.25 billion	February 2014
Société Générale	\$122 million	February 2014
Credit Suisse	\$885 million	March 2014
Bank of America Corp.	\$5.83 billion	March 2014
Barclays Bank PLC	\$280 million	April 2014
First Horizon National Corp.	\$110 million	April 2014
RBS Securities, Inc.	\$99.5 million	June 2014
Goldman Sachs & Co.	\$1.2 billion	August 2014
HSBC North America Holdings Inc.	\$550 million	September 2014
Total	\$18.2 billion	

^a The Wells Fargo Bank settlement is a non-litigation private-label securities settlement.

Lawsuits/Settlements

FHFA Private-Label MBS Lawsuits

As of September 2014, FHFA had recovered nearly \$18.2 billion on behalf of taxpayers in 2013 and 2014 through settlements with financial institutions that sold private-label MBS to the Enterprises between 2005 and 2007 (see Figure 18, above). FHFA had sued 18 institutions alleging securities law violations, and in some cases, fraud.¹⁰⁴

In September 2014, FHFA reached a \$550 million settlement with HSBC North America Holdings Inc., related companies, and specifically named individuals resolving claims in a

lawsuit alleging violations of federal, Virginia, and District of Columbia securities laws in connection with private-label MBS purchased by the Enterprises. HSBC will pay \$374 million to Freddie Mac and \$176 million to Fannie Mae.¹⁰⁵

In August 2014, FHFA reached a \$3.15 billion settlement with Goldman Sachs & Co., related companies, and named individuals addressing alleged violations of federal and state securities laws in connection with private-label MBS purchased by the Enterprises. Goldman Sachs will pay approximately \$2.15 billion to Freddie Mac and approximately \$1 billion to Fannie Mae. The settlement also resolves claims involving

As of September 2014, FHFA had recovered nearly \$18.2 billion on behalf of taxpayers.

a Goldman Sachs security in a lawsuit against Ally Financial Inc. FHFA previously settled claims against Ally Financial for \$475 million in October 2013.¹⁰⁶

In June 2014, FHFA reached a settlement of \$99.5 million with RBS Securities, Inc., resolving claims against RBS alleging violations of federal and state securities laws in connection with private-label MBS purchased by Freddie Mac during 2005-2007. The case stems from a lawsuit filed against Ally Financial that named RBS and other banks as the underwriters of Ally's MBS. The June 2014 settlement does not affect a separate lawsuit filed against RBS.¹⁰⁷

In April 2014, FHFA settled two lawsuits alleging violations of federal and state securities laws in connection with private-label MBS purchased by the Enterprises during 2005-2007. The first settlement resolves claims in a lawsuit against Barclays Bank PLC, related companies, and named individuals, as well as claims against Barclays in the Ally Financial suit. Barclays will pay \$227 million to Freddie Mac and \$53 million to Fannie Mae.¹⁰⁸ Later in April, FHFA reached a settlement for \$110 million with First Horizon National Corporation, a large Tennessee bank holding company, and a number of other related companies and individuals. The settlement resolves claims in a lawsuit alleging violations of federal and District of Columbia securities laws in connection with private-label MBS purchased by the Enterprises during 2005-2007. Pursuant to the agreement, First Horizon will pay \$61.6 million to Fannie Mae and \$48.4 million to Freddie Mac.¹⁰⁹

FHFA and GSE Performance and Accountability

FHLBanks Announce Merger Agreement

In September 2014, the FHLBanks of Des Moines and Seattle announced that they have entered into

a definitive agreement to merge the two Banks. The merger agreement was unanimously approved by the boards of directors of both FHLBanks.¹¹⁰ The FHLBanks' formal merger application must be approved by FHFA and ratified by the members of the FHLBanks of Des Moines and Seattle. The FHFA Director said the Agency views the merger agreement positively.¹¹¹ The FHLBank of Des Moines is a source of funding for nearly 1,200 members in Iowa, Minnesota, Missouri, North Dakota, and South Dakota. As of June 30, 2014, the FHLBank of Des Moines had \$82.2 billion in assets. The FHLBank of Seattle provides low-cost, long- and short-term funding to more than 330 members in Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington, and Wyoming and the U.S. territories of American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The FHLBank of Seattle had \$36.5 billion in assets as of June 30, 2014.¹¹²

FHFA Strategic Plan for 2015-2019

In August 2014, FHFA requested input on its Strategic Plan for the fiscal years 2015-2019. FHFA's Strategic Plan sets out the Agency's priorities as regulator of the Enterprises as well as the FHLBank System. The 2015-2019 FHFA Strategic Plan also has three major goals: (1) ensure that the regulated entities are safe and sound; (2) ensure liquidity, stability, and access in housing finance; and (3) manage the Enterprises' ongoing conservatorships. The Strategic Plan also reflects the priorities outlined for the Enterprises in *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, which the Agency released in May.¹¹³

The goals outlined in *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* were: (1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national

housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and (3) build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.¹¹⁴ FHFA requested input from members of Congress, the public, and interested stakeholders by September 15, 2014.¹¹⁵

FHFA 2013 Report to Congress

On June 13, 2014, FHFA released its *2013 Report to Congress*, which detailed the findings of the Agency's 2013 annual examinations of the Enterprises, the 12 FHLBanks, and the FHLBanks' Office of Finance. For the 2013 annual examinations, FHFA used a new composite rating system called CAMELSO, which is an acronym describing the seven rating components: capital, asset quality, management, earnings, liquidity, sensitivity to market risk, and operational risk.¹¹⁶

The report noted that while each Enterprise continues to have significant exposure to credit losses from mortgages originated in the several years prior to conservatorship, they had record amounts of net income in 2013 totaling \$132.7 billion. The Enterprises' 2013 levels of net income benefited from a number of nonrecurring items, such as the release of valuation allowances against deferred tax assets and various legal settlements. Other major contributors included the overall improvement in the housing market and income from the Enterprises' retained portfolios.¹¹⁷

The report said the conservatorships of the Enterprises, combined with Treasury's financial support, have stabilized the Enterprises but not restored them to a sound financial condition. It said the Enterprises remain exposed to credit, counterparty, and operational risks. Credit risk management remains a key priority for both Enterprises because of their substantial amount of remaining distressed legacy assets and the ongoing

stress in certain housing markets. In addition, counterparty risk remains an area of concern, especially given the evolving changes in the mortgage industry and the greater prominence of new types of seller/servicers.¹¹⁸

In regard to the FHLBanks, the report stated that all FHLBanks were profitable for 2013 and the FHLBanks' advance business continued to operate with no credit losses. The report went on to say that the FHLBank of Seattle remained under an FHFA consent order, which was revised in November 2013. It said that although the FHLBank of Seattle's overall financial performance continued to improve during 2013, weaknesses persist due to the deteriorated value of the institution's private-label MBS, elevated operational risk, poor earnings, and insufficient retained earnings. The revised consent order requires FHFA's non-objection before the FHLBank of Seattle pays dividends or repurchases or redeems capital stock.¹¹⁹

Enterprise Stress Tests

In April 2014, FHFA issued a report providing updated information on possible ranges of future financial results of the Enterprises under certain scenarios. The report *Projections of the Enterprises' Financial Performance (Stress Tests)* reflects the results of stress tests the Enterprises are required to conduct starting this year under Dodd-Frank. The stress tests are designed to determine whether the Enterprises could absorb losses as a result of adverse economic conditions.¹²⁰ Importantly, the stress test projections are not expected outcomes.¹²¹ The stress test instructions noted that the Enterprises' capital positions are unique in that they are supported and restricted by the PSPAs with Treasury.¹²²

The stress tests modeled "what if" scenarios based on assumptions about Enterprise operations, loan performance, macroeconomic and financial market conditions, and house prices. The Enterprises were

provided with the key assumptions for each scenario and used their respective internal models to project their financial results based on the assumptions.¹²³

The key assumptions used for the Dodd-Frank Act Stress Test severely adverse scenario included a 25% decline in house prices for nine quarters, a fall in nonagency security prices by 20% to 90%, and a default of the largest counterparty for securities financing transactions and derivatives. The report said that in this scenario, incremental Treasury draws would range between \$84.4 billion and \$190 billion, depending on the treatment of deferred tax assets. The remaining funding commitment under the PSPAs would range between \$173.7 billion and \$68 billion. The report also gave the results of three FHFA stress test scenarios, which have been done since 2010. In the FHFA stress test scenarios, cumulative, combined Treasury draws at the end of 2015 would remain unchanged at \$187.5 billion, as neither Enterprise would require additional Treasury draws in any of the three scenarios. The combined remaining commitment under the PSPAs would be unchanged at \$258.1 billion. In the three scenarios, the Enterprises would pay additional senior preferred dividends to Treasury ranging between \$54 billion and \$36.3 billion.¹²⁴

Appendices

Appendix A: Glossary and Acronyms

Glossary of Terms

Alt-A: A classification of mortgages in which the risk profile falls between prime and subprime. Alternative A (also known as Alt-A) mortgages are generally considered higher risk than prime due to factors that may include higher loan-to-value and debt-to-income ratios or limited documentation of the borrower's income.

Back Office Systems: Back office systems are those related to the inner workings of a business or institution.

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.

Basis Points: A hundredth of 1 percentage point. For example, 1 basis point is equivalent to 1/100 of 1 percentage point.

Bonds: Obligations by a borrower to eventually repay money obtained from a lender. The buyer of the bond (or "bondholder") is entitled to receive payments from the borrower.

Capitalization: In the context of bank supervision, capitalization refers to the funds a bank holds as a buffer against unexpected losses. It includes shareholders' equity, loss reserves, and retained earnings. Bank capitalization plays a critical role in the safety and soundness of individual banks and the banking system. In most cases, federal regulators set requirements for adequate bank capitalization.

Carryforwards: A provision of tax law that allows current losses or certain tax credits to be utilized in future tax returns.

Collateral: Assets used as security for a loan that can be seized by the lender if the borrower fails to repay the loan.

Commercial Banks: Commercial banks are establishments primarily engaged in accepting demand and other deposits and making commercial, industrial, and consumer loans. Commercial banks provide significant services in originating, servicing, and enhancing the liquidity and quality of credit that is ultimately funded elsewhere.

Conforming Loan Limit: A conforming loan is a conventional loan with an origination balance that does not exceed a specified amount (i.e., conforming loan limit). The Enterprises are restricted by law to purchasing conforming loans, with the loan limits varying by unit size and region, e.g., high-cost areas. The loan limits for 2014 remain unchanged from 2013. For 2014, the maximum general loan limit for a single-family one-unit dwelling is \$417,000, while the maximum high-cost area loan limit for a single-family one-unit dwelling is \$625,500.

Conservatorship: Conservatorship is 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 entered 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.

Credit Unions: Member-owned, not-for-profit financial cooperatives that provide savings, credit, and other financial services to their members. Credit unions pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital. Members benefit from higher returns on savings, lower rates on loans, and fewer fees on average.

Credit-Related Income (Expense): Comprised of foreclosed property income (expense) and the benefit (provision) for credit losses.

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

Deferred Tax Assets: Deferred tax assets are recognized for temporary differences that will result in deductible amounts and for carryforwards. For example, a temporary difference is created between the reported amount and the tax basis of a liability for estimated expenses if, for tax purposes, those estimated expenses are not deductible until a future year.

Derivative Gains (Losses): The Enterprises acquire and guarantee primarily longer-term mortgages and securities that are funded with debt instruments. The companies manage the interest rate risk associated with these investments and funding activities with derivative agreements. The gains (losses) on derivative agreements are caused by changes in interest rates that, in turn, cause a net increase (decrease) in the fair value of these agreements.

Derivatives: A financial contract whose value depends on that of another asset, such as a stock or bond. A derivative contract is, essentially, an

agreement providing parties to the agreement with the obligation or the choice to buy, sell, or exchange something at a future date. They may be used to hedge interest rate or other risks related to holding a mortgage.

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, ending "too big to fail," protecting the American taxpayer by ending bailouts, and protecting consumers from abusive financial services practices.

Emergency Economic Stabilization Act of 2008: Legislation that authorizes Treasury to undertake specific measures to provide stability and prevent disruption in the financial system and the economy. It also provides funds to preserve homeownership.

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 homebuyers.

Federal Home Loan Banks: The FHLBanks are 12 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.

Federal Housing Administration: Part of HUD, FHA insures residential mortgages made by approved lenders against payment losses. It is the largest insurer

of mortgages in the world, insuring over 34 million properties since its inception in 1934.

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, pools them into securities, and sells them to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to homebuyers.

Ginnie Mae: A government-owned corporation within HUD. Ginnie Mae guarantees investors the timely payment of principal and interest on privately issued MBS backed by pools of government-insured and -guaranteed mortgages.

Government-Sponsored Enterprise Mortgage-Backed Securities Purchase Facility: The function of the GSE MBS Purchase Facility was to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury purchased GSE MBS in the secondary market. By purchasing these securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners, as well as to promote market stability.

Government-Sponsored Enterprises: Business organizations chartered and sponsored by the federal government.

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

Hedging: The practice of taking an additional step, such as buying or selling a derivative, to offset certain risks associated with holding a particular investment, such as MBS.

Home Mortgage Disclosure Act: The Home Mortgage Disclosure Act was enacted by Congress in 1975 and was originally implemented by the Federal Reserve Board's Regulation C. On July 21, 2011, rule-writing authority for the Home Mortgage Disclosure Act transferred from the Federal Reserve Board to the Consumer Financial Protection Bureau. The Consumer Financial Protection Bureau's Regulation C, which now implements the Home Mortgage Disclosure Act, requires lending institutions to report public loan data.

Housing and Economic Recovery Act of 2008: Legislation that establishes OIG and FHFA, which oversee the GSEs' operations. HERA also expanded Treasury's authority to provide financial support to the GSEs.

Implied Guarantee: The assumption, prevalent in the financial markets, that the federal government will cover Enterprise debt obligations.

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.

Insurance Company: A company whose primary and predominant business activity is the writing of insurance and issuing or underwriting “covered products.”

Interest Rate Swap: An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal. The notional principal is only used to calculate the interest payments; no risk is attached to it. Interest rate swaps commonly involve exchanging payments based on a fixed interest rate for payments based on a floating rate (e.g., London Interbank Offered Rate). The fixed rate is known as the swap rate.

Internal Controls: Internal controls are an integral component of an organization’s management that provide reasonable assurance that the following objectives are achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reports, and (3) compliance with applicable laws and regulations. Internal controls relate to management’s plans, methods, and procedures used to meet its mission, goals, and objectives and include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Joint and Several Liability: The concept of joint and several liability provides that each member in a group is responsible for the debts of all in that group. In the case of the FHLBanks, if any individual FHLBank were unable to pay a creditor, the other 11—or any 1 or more of them—would be required to step in and cover that debt.

Loan-to-Value: A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the loan-to-value (also known as LTV), the less cash a borrower is required to pay as down payment.

Margin Requirements: When buying securities on margin (the difference between the market value of a stock and the loan a broker makes), the proportion of the total market value of the securities that the investor must pay for in cash are margin requirements.

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

Non-Cleared Swap: A derivative that has not been cleared through a central counterparty, which is an entity that manages credit risk between two parties during a swap transaction and assumes the credit risk.

Operational Risk: Exposure to loss resulting from inadequate or failed internal processes, people, and systems or from external events (including legal events).

Options: Contracts that give the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument.

Preferred Stock: A security that usually pays a fixed dividend and gives the holder a claim on corporate earnings and assets superior to that of holders of common stock but inferior to that of investors in the corporation’s debt securities.

Private-Label Mortgage-Backed Securities: MBS issued or guaranteed by entities other than GSEs or federal government agencies. They do not carry an explicit or implicit government guarantee, and the private-label MBS investor bears the risk of losses on its investment.

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 then must 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.

Securitization Platform: A mechanism that connects capital market investors to borrowers by bundling mortgages into securities and tracking loan payments.

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: Servicers act as intermediaries between mortgage borrowers and owners of the loans, such as the Enterprises or MBS investors. They collect the homeowners' 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 straw buyer is 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 may be paid a fee for their involvement in purchasing a property and usually never intend to own or occupy the property.

Swap: Refers to an exchange of one financial instrument for another between two parties. This exchange takes place at a predetermined time, as specified in the contract. Swaps can be used to hedge risk of various kinds, including interest rate risk and currency risk.

Swap Dealers: A swap dealer is any person who: is a dealer in swaps; makes a market in swaps; regularly enters into swaps with counterparties as an ordinary course of business; or, engages in activity causing the person to be commonly known in the trade as a dealer or market maker in swaps.

Swaption: An option on a swap that gives the holder the right, but not the obligation, to enter, for example, into an interest rate swap as either the payer or the receiver of the fixed side of the swap.

Thrift: A financial institution that ordinarily possesses the same depository, credit, financial intermediary, and account transactional functions as a bank but that is chiefly organized and primarily operates to promote savings and home mortgage lending rather than commercial lending.

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.”

Valuation Allowance: Method of lowering or raising an object’s current value by adjusting its acquisition cost to reflect its market value by offsetting another account. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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Acronyms and Abbreviations

Agency	Federal Housing Finance Agency	FSOC	Financial Stability Oversight Council
AMFS	American Mortgage Field Services, LLC	GAO	Government Accountability Office
Blue Book	<i>Quality Standards for Inspection and Evaluation</i>	GSEs	Government-Sponsored Enterprises
CIGFO	Council of Inspectors General on Financial Oversight	HAMP	Home Affordable Modification Program
CIGIE	Council of the Inspectors General on Integrity and Efficiency	HERA	Housing and Economic Recovery Act of 2008
CSP	Common Securitization Platform	HUD	Department of Housing and Urban Development
DHMG	Division of Housing Mission and Goals	HUD-OIG	Department of Housing and Urban Development Office of Inspector General
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	IPA	Independent Public Accountant
DOJ	Department of Justice	IRS-CI	IRS-Criminal Investigation
Enterprises	Fannie Mae and Freddie Mac	IT	Information Technology
EO	Executive Office	LPI	Lender-Placed Insurance
FAR	Federal Acquisition Regulation	LSC-OIG	Legal Services Corporation Office of Inspector General
FCC-OIG	Federal Communications Commission Office of Inspector General	LTV	Loan-to-Value
FDIC	Federal Deposit Insurance Corporation	MBS	Mortgage-Backed Securities
FDIC-OIG	Federal Deposit Insurance Corporation Office of Inspector General	MNR	Minimum Net Reserve
FHA	Federal Housing Administration	MPF	Mortgage Partnership Finance
FHFA	Federal Housing Finance Agency	MSR	Mortgage Servicing Rights
FHLBank System	Federal Home Loan Bank System	OA	Office of Audits
FHLBanks	Federal Home Loan Banks	OAd	Office of Administration
FISMA	Federal Information Security Management Act of 2002	OC	Office of Counsel
		OE	Office of Evaluations
		OI	Office of Investigations
		OIG	Federal Housing Finance Agency Office of Inspector General

OR	Office of Oversight and Review	SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
PFCRA	Program Fraud Civil Remedies Act of 1986	SIR	Systemic Implication Report
PII	Personal Identifying Information	TBA	To-be-Announced
PSPAs	Senior Preferred Stock Purchase Agreements	TBW	Taylor, Bean & Whitaker Mortgage Corporation
QAR	Quality Assurance Review	Treasury	Department of the Treasury
REO	Real Estate Owned	USPIS	Postal Inspection Service
RMBS	Residential Mortgage-Backed Securities	Yellow Book	<i>Government Auditing Standards</i>
SAI	Servicing Alignment Initiative		
SBA-OIG	Small Business Administration Office of Inspector General		

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 the transparency, efficiency, and effectiveness of the

Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Figure 19 (see page 81) summarizes OIG's formal recommendations that were made, pending, or closed during the reporting period. Figure 20 (see page 101) lists OIG's audit and evaluation reports for which all of the recommendations were closed in prior semiannual periods.

Figure 19. Summary of OIG Recommendations

No.	Recommendation	Report	Status
AUD-2014-018-1	FHFA should direct the Enterprises 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.	<i>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</i>	Recommendation not accepted by FHFA; recommendation remains open and will continue to be monitored.
AUD-2014-017-1	FHFA should conduct a comprehensive examination to determine whether Freddie Mac has implemented and enforces an effective IT investment management process.	<i>FHFA Oversight of Freddie Mac's Information Technology Investments</i>	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2014-017-2	FHFA should develop and issue Enterprise IT investment management guidance.	<i>FHFA Oversight of Freddie Mac's Information Technology Investments</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-017-3	FHFA should evaluate whether Freddie Mac reports currently used by FHFA examiners provide the information necessary to conduct effective supervisory monitoring of Freddie Mac's portfolio of IT investments.	<i>FHFA Oversight of Freddie Mac's Information Technology Investments</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-016-1	FHFA should assess the current state of the Enterprises' critical risk assessment tools, representations and warranties tracking systems, and any other systems, processes, or infrastructure to determine whether the Enterprises are in a position to minimize financial risk that may result from the new framework. The results of this assessment should document any areas of identified risk, planned actions, and corresponding timelines to mitigate each area of identified risk. Further, this assessment should provide an estimate of when each Enterprise will be reasonably equipped to work safely and soundly within the new framework.	<i>FHFA's Representation and Warranty Framework</i>	Recommendation partially agreed to by FHFA; however, OIG found FHFA's planned actions "potentially responsive." Recommendation remains open and will continue to be monitored.

No.	Recommendation	Report	Status
AUD-2014-016-2	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.	<i>FHFA's Representation and Warranty Framework</i>	Recommendation not accepted by FHFA; recommendation remains open and will continue to be monitored.
AUD-2014-015-1	FHFA should communicate a written supervisory expectation to Fannie Mae requiring that its business units perform a review of non-delegated short sale transactions to identify any transactions where the servicer submitted net proceeds that were less than the sale amount approved by Fannie Mae and draft a remediation plan, as appropriate.	<i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-015-2	FHFA should communicate a written supervisory expectation to Fannie Mae requiring its internal audit group to review Fannie Mae's plan to collect funds for delegated and non-delegated short sale transactions where the net proceeds received were less than the amounts authorized by Fannie Mae.	<i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-015-3	FHFA should analyze Fannie Mae's actions and remediation plans in response to recommendations 1 and 2 to determine whether Fannie Mae has taken necessary steps to ensure that servicers are held accountable for servicing violations and credit losses are minimized. FHFA should also require modification by Fannie Mae of its remediation plans, as appropriate.	<i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-014-1	FHFA should issue guidance to the Enterprises on the risk management process that should be employed to identify and mitigate risks related to nonperformance under Enterprise contracts with nonbank special servicers.	<i>FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-014-2	FHFA should develop a comprehensive, formal framework to mitigate the risks nonbank special servicers pose to the Enterprises that includes routine FHFA examinations, Enterprise reviews, and capacity testing before acquisition of servicing rights to ensure these servicers can continue to fulfill their servicing requirements.	<i>FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages</i>	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2014-013-1	FHFA should establish policies, procedures, and processes to execute FHFA's oversight of the Enterprises' monitoring of business conducted with mortgage insurers. These policies should provide for the coordinated involvement of necessary FHFA divisions and define their roles and responsibilities in matters pertaining to managing risks to the Enterprises associated with mortgage insurers.	<i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i>	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2014-013-2	FHFA should develop specific criteria, and update the letter of instruction accordingly, that classifies new mortgage insurers as non-delegated activities that require FHFA approval.	<i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-013-3	FHFA should develop a methodology for FHFA's review of new mortgage insurers and ensure procedures performed are adequately documented and support the conclusions reached during the review.	<i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-012-1	FHFA should direct the Enterprises to jointly assess the effectiveness of their pre-foreclosure property inspection processes. OIG identified several specific areas to review as part of the assessment, including: (1) identifying pre-foreclosure property inspection risk and objectives, (2) identifying cost-effective control alternatives for achieving the objective(s), and (3) recommending inspection standards and quality controls with regard to the content and frequency of inspections.	<i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</i>	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2014-012-2	Based on the results of the Enterprises' assessment of their pre-foreclosure property inspection processes, FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	<i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</i>	Recommendation not accepted by FHFA; however, OIG considers FHFA's response to recommendation 2 to be potentially responsive to resolve the recommendation. Recommendation remains open and will continue to be monitored.
AUD-2014-009-1	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.	<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-009-2	FHFA should direct Freddie Mac to develop a repurchase late fee report to be given routinely to FHFA that expands on information already provided by adding summary information by seller on outstanding repurchases, aging of repurchases, late fees assessed and collected, discretionary late fee waivers, and global late fee exclusions. Such a report would provide Freddie Mac and FHFA management with needed information to manage and assess Freddie Mac's repurchase late fee program more effectively.	<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>	Closed—Final action taken by FHFA.
AUD-2014-009-3	FHFA should direct Freddie Mac to provide FHFA with information on any assessed but uncollected late fees associated with the repurchase claims that are included in the 2013 bulk settlements so that these fees can be considered in the negotiations and documented in accordance with the Office of Conservatorship Operations' Settlement Policy.	<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>	Closed—Final action taken by FHFA.
AUD-2014-008-1	FHFA should perform supervisory review and follow-up to ensure that Fannie Mae takes action to change the portal message type from automatic override to manual override or fatal for the 25 proprietary messages related to underwriting requirements, which will require lenders to take action to address the appraisal-related messages warning of potential underwriting violations prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-2	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to develop and implement additional proprietary messages related to its property underwriting requirements.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-008-3	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to establish the additional proprietary messages related to property underwriting requirements as manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-4	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review the type of message related to the existing nine proprietary messages for consideration of converting the type of message from automatic override to manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-5	FHFA should perform supervisory review of both Enterprises to ensure the portal warning messages distinguish between inactive appraisers and unverified appraisers, as of the date the appraisal is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-6	FHFA should perform supervisory review of both Enterprises to ensure that the portal tests whether appraisers are licensed and active at the time the appraisal is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-7	FHFA should perform supervisory review of both Enterprises to change the message type, for messages relating to appraiser license status, from automatic override to manual override or fatal, which will require lenders to take action to address the message prior to delivering the loan. This action can be taken once the system logic is fixed and the historical records are available to determine the status of an appraiser's license at the time the appraisal work is performed, and the states are updating in real time.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-008-8	FHFA should perform supervisory review of both Enterprises to seek remedy for the 23 loans, valued at \$3.4 million, delivered to the Enterprises by the two suspended appraisers in violation of underwriting requirements.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-9	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to implement an internal control policy and related procedures to follow up on appraisal license status messages generated by the portal.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-10	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review loans purchased since the portal's inception that generated messages related to the appraiser's license status.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-11	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to use the results of the review to repurchase the loans that contained appraisals that were performed by unlicensed appraisers, as appropriate.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-12	FHFA should pursue retention of historical records of the status of appraisers' licenses in the National Registry of Appraisers sufficient to determine the status of appraisers' licenses at the time the appraisal work is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-008-13	FHFA should pursue having the National Registry of Appraisers updated to reflect the status of state-certified and -licensed appraisers on a real-time basis.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2014-008-14	FHFA should perform supervisory review and follow-up to ensure that the Enterprises develop and implement the portal as intended by FHFA's uniform mortgage data program directive.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-006-1	FHFA should document purchase card policies and procedures related to the purchase of training above the \$5,000 micro-purchase threshold.	<i>FHFA's Use of Government Purchase Cards</i>	Closed—Final action taken by FHFA.
AUD-2014-006-2	FHFA should document purchase card policies and procedures related to the use of employee Continued Service Agreements for high-cost training.	<i>FHFA's Use of Government Purchase Cards</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-006-3	FHFA should document purchase card policies and procedures related to the approval and resetting of temporary increases in transactions limits in a cardholder's purchase authority.	<i>FHFA's Use of Government Purchase Cards</i>	Closed—Final action taken by FHFA.
AUD-2014-006-4	FHFA should document purchase card policies and procedures related to the management of Merchant Category Code exceptions, which should be allowed only on a case-by-case basis and removed in a timely manner after the allowed purchase is transacted.	<i>FHFA's Use of Government Purchase Cards</i>	Closed—Final action taken by FHFA.
AUD-2014-004-1	FHFA should review Fannie Mae's remediation plan to ensure that the plan provides for the return of borrower contributions to borrowers in a consistent manner by Fannie Mae and its servicers, and issue guidance as deemed appropriate regarding the execution of the remediation plan.	<i>FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties</i>	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2014-004-2	FHFA should oversee the execution of Fannie Mae's remediation plan to ensure that a good faith effort is made to promptly refund inappropriately collected borrower contributions to borrowers.	<i>FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties</i>	Closed—Final action taken by FHFA.
AUD-2014-004-3	FHFA should examine Freddie Mac's controls over the collection of borrower contributions for the short sales of properties located in California, and issue guidance to strengthen controls as deemed appropriate based on the results of the examination.	<i>FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-003-1	To strengthen controls over short sales, FHFA should direct Fannie Mae to enforce the requirement that all borrowers not eligible for the Streamlined Documentation Program provide a borrower-certified Uniform Borrower Assistance Form and supporting documentation in order to make eligibility determinations and assess borrower contributions.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-003-2	To strengthen controls over short sales, FHFA should direct Fannie Mae to establish controls to identify and resolve inconsistencies between the Uniform Borrower Assistance Form and supporting information used in making short sale eligibility determinations.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-003-3	To strengthen controls over short sales, FHFA should direct Fannie Mae to assess its servicer compensation structure to determine if it should consider the quality of borrower eligibility determinations for short sales and success in limiting losses, including through contributions by borrowers with the ability to pay.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2014-003-4	To strengthen controls over short sales, FHFA should direct Fannie Mae to enhance controls over collection and use of electronic information from servicers on the financial condition of borrowers to ensure data is reliable and effectively used in both borrower eligibility and servicer performance evaluation processes.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2014-003-5	FHFA should review the Streamlined Documentation Program to determine whether the program should be available to borrowers seeking approval to short sell non-owner-occupied properties.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Closed—Final action taken by FHFA.
AUD-2014-003-6	FHFA should provide examination coverage of Fannie Mae's short sale activities with particular emphasis on identifying systemic deficiencies related to borrower submissions, Enterprise eligibility determinations, servicer compensation structure, and reliability of electronic information used in managing short sales.	<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-009-1	To strengthen its Enterprise information security and privacy programs, FHFA should define and issue Enterprise information security and privacy program requirements.	<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs</i>	Closed—Final action taken by FHFA.
AUD-2013-009-2	To strengthen its Enterprise information security and privacy programs, FHFA should implement the workforce plan and ensure the plan of action addresses the need to have an adequate number of IT examiners. Specifically, FHFA should provide an appropriate level of management oversight during the annual supervisory examination planning and execution processes to ensure completion of the annual plan and compliance with established IT examination policies and procedures.	<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs</i>	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2013-009-3	To strengthen its Enterprise information security and privacy programs, FHFA should ensure that planning for future IT examinations is based on fully executed risk assessments, as required by FHFA policy.	<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs</i>	Closed—Final action taken by FHFA.
AUD-2013-009-4	To strengthen its Enterprise information security and privacy programs, FHFA should consistently deploy the automated tools needed for ongoing monitoring and tracking of previously identified security and privacy issues in order to enhance the efficiency and effectiveness of the examination process.	<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs</i>	Closed—Final action taken by FHFA.
AUD-2013-009-5	To strengthen its Enterprise information security and privacy programs, FHFA should establish and document a process for placing formal reliance on the work of internal audit divisions at the Enterprises.	<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-008-1	FHFA should develop a risk-based plan to monitor the Enterprises' oversight of their counterparties' compliance with contractual representations and warranties, including those related to federal consumer protection laws.	<i>FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2013-007-1	To improve servicer compliance with escalated case requirements, FHFA should perform supervisory review and follow up to ensure that Freddie Mac requires its servicers to report escalated consumer complaint information—to include a negative response if servicers have not received any escalated complaints—on a monthly basis.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-2	To improve servicer compliance with escalated case requirements, FHFA should perform supervisory review and follow up to ensure that Freddie Mac requires its servicers to resolve escalated consumer complaint information within 30 days.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-3	To improve servicer compliance with escalated case requirements, FHFA should perform supervisory review and follow up to ensure that Freddie Mac requires its servicers to categorize resolved escalated consumer complaint information in accordance with resolution categories defined in the servicing guide.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-4	To enhance Freddie Mac's oversight of its servicers, FHFA should perform supervisory review and follow up to ensure that Freddie Mac includes testing of servicers' performance for handling and reporting escalated cases as part of its reviews of servicers' performance.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-5	To enhance Freddie Mac's oversight of its servicers, FHFA should perform supervisory review and follow up to ensure that Freddie Mac identifies and addresses servicer operational challenges with implementing the escalated case requirements as part of the testing of the servicers' performance for handling and reporting escalated cases.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2013-007-6	To enhance Freddie Mac's oversight of its servicers, FHFA should perform supervisory review and follow up to ensure that Freddie Mac establishes penalties in the servicing guide, such as fines or fees, for servicers' lack of reporting escalated cases.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-7	To enhance Freddie Mac's oversight of its servicers, FHFA should perform supervisory review and follow up to ensure that Freddie Mac expands the servicer scorecard and servicer performance evaluations to include reporting of escalated cases.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-8	To enhance Freddie Mac's oversight of its servicers, FHFA should perform supervisory review and follow up to ensure that Freddie Mac provides information on escalated cases received from servicers to internal staff (the counterparty operational risk evaluation team) responsible for testing servicer performance.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-007-9	To improve its own oversight, FHFA should develop and implement FHFA examination guidance related to Enterprise implementation and compliance with FHFA directives.	<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements</i>	Closed—Final action taken by FHFA.
AUD-2012-008-1	FHFA should reassess the non-delegated authorities to ensure sufficient FHFA involvement with major business decisions.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-008-2	FHFA should evaluate the internal controls established by the Enterprises, including policies and procedures, to ensure they communicate all major business decisions requiring approval to the Agency.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-008-3A	FHFA should evaluate Fannie Mae's mortgage pool policy commutations to determine whether these transactions were appropriate and in the best interest of the Enterprise and taxpayers. This evaluation should include an assessment of Fannie Mae's methodology used to determine the economic value of the seven mortgage pool policy commutations. This assessment should include a documented review of Fannie Mae's analysis, the adequacy of the model(s) and assumptions used by Fannie Mae to determine the amount of insurance in force, fair value of the mortgage pool policies, premiums forgone, any other factors incorporated into Fannie Mae's analysis, and the accuracy of the information supplied to FHFA.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-3B	FHFA should evaluate Fannie Mae's mortgage pool policy commutations to determine whether these transactions were appropriate and in the best interest of the Enterprise and taxpayers. This evaluation should include a full accounting and validation of all of the cost components that comprise each settlement discount (risk in force minus fee charged), such as insurance premiums and time value of money applicable to each listed cost component.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-4	FHFA should develop a methodology and process for conservator review of proposed mortgage pool policy commutations to ensure that there is a documented, sound basis for any pool policy commutations executed in the future.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-008-5	FHFA should complete actions to establish a governance structure at Fannie Mae for obtaining conservator approval of counterparty risk limit increases.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-6	FHFA should establish a clear timetable and deadlines for Enterprise submission of transactions to FHFA for conservatorship approval.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-7	FHFA should develop criteria for conducting business case analyses and substantiating conservator decisions.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-8	FHFA should issue a directive to the Enterprises requiring them to notify FHFA of any deviation from any previously reviewed action so that FHFA may consider the change and revisit its conservatorship decision.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
AUD-2012-008-9	FHFA should implement a risk-based examination plan to review the Enterprises' execution of and adherence to conservatorship decisions.	<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>	Closed—Final action taken by FHFA.
EVL-2014-011-1	FHFA should require Freddie Mac to determine, by means of a cost-benefit analysis, whether to increase the size of the sample of reimbursement claims that it subjects to the prepayment review.	<i>Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims</i>	Closed—Final action taken by FHFA.
EVL-2014-011-2	FHFA should require Freddie Mac to, if warranted by the result of the cost-benefit analysis, increase the size of the sample of reimbursement claims that it subjects to prepayment review.	<i>Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2014-009-1	FHFA should assess the merits of litigation by the Enterprises against their servicers and LPI providers to remedy potential damages caused by past abuses in the LPI market and, then, take appropriate action in this regard.	<i>FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-008-1	To strengthen its management of the CSP, FHFA should establish schedules and time frames for completing key components of the project, as well as an overall completion date as appropriate.	<i>Status of the Development of the Common Securitization Platform</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-008-2	To strengthen its management of the CSP, FHFA should establish cost estimates for varying stages of the initiative, as well as an overall cost estimate.	<i>Status of the Development of the Common Securitization Platform</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-006-1	As FHFA collects and analyzes information on FHLBank advances to large and other members in calendar year 2014, FHFA should report publicly on such items as advance trends, the reasons for such advances, the effectiveness of FHLBank risk management practices, the consistency of such advances with the FHLBank System's housing mission, and other topics as deemed appropriate.	<i>Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-005-1	FHFA should review the 2013 director expense data submitted by the FHLBanks to identify and correct any inconsistencies and inaccuracies prior to the publication of the 2013 annual report, to the extent feasible, and disclose in the report any remaining data limitations.	<i>FHFA's Reporting of Federal Home Loan Bank Director Expenses</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-005-2	FHFA should issue guidance designed to ensure the consistency and utility of the director expense data submitted to the Agency.	<i>FHFA's Reporting of Federal Home Loan Bank Director Expenses</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2014-003-1	FHFA's Deputy Director of Division of Housing Mission and Goals (DHMG) should establish an ongoing process to evaluate servicers' Servicing Alignment Initiative (SAI) compliance and the effectiveness of the Enterprises' remediation efforts.	<i>FHFA's Oversight of the Servicing Alignment Initiative</i>	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.
EVL-2014-003-2	FHFA's Deputy Director of DHMG should direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment.	<i>FHFA's Oversight of the Servicing Alignment Initiative</i>	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.
EVL-2014-003-3	FHFA's Deputy Director of DHMG should regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.	<i>FHFA's Oversight of the Servicing Alignment Initiative</i>	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.
EVL-2014-002-1	FHFA should review its implementation of the 2013 Enterprise examination plans and document the extent to which resource limitations, among other things, may have impeded their timely and thorough execution.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-002-2	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-002-3	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2013-012-1	FHFA should ensure Fannie Mae takes the actions necessary to reduce servicer reimbursement processing errors. These actions should include utilizing its process accuracy data in a more effective manner and implementing a red flag system.	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i>	Closed—Final action taken by FHFA.
EVL-2013-012-2	FHFA should require Fannie Mae to: <ul style="list-style-type: none"> • quantify and aggregate its overpayments to servicers regularly; • implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and • report its findings and progress to FHFA periodically. 	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2013-012-3	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i>	Closed—Final action taken by FHFA.
EVL-2013-005-1	FHFA should, preferably in consultation with FHA, develop definitions and performance measures that would permit Congress, financial market participants, and the public to assess the progress and the effectiveness of its initiative.	<i>FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees</i>	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2013-005-2	<p>FHFA should assess the feasibility of establishing a formal working arrangement with FHA to assess such critical issues as:</p> <ul style="list-style-type: none"> • (1) the implementation of their pricing initiatives and prospects for success in achieving their objectives, and (2) the potential for shifts of mortgage business and risks between government-supported or -guaranteed markets; • briefing the Federal Housing Finance Oversight Board and/or Financial Stability Oversight Council (FSOC) on the findings of the assessment; and • disclosing the assessment publicly in an appropriate format. 	<p><i>FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees</i></p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>
EVL-2012-005-1	<p>FHFA should continue its ongoing horizontal review of unsecured credit practices at the FHLBanks by:</p> <ul style="list-style-type: none"> • following up on any potential evidence of violations of the existing regulatory limits and taking supervisory and enforcement actions as warranted; and • determining the extent to which inadequate systems and controls may compromise the FHLBanks' capacity to comply with regulatory limits and taking any supervisory actions necessary to correct such deficiencies as warranted. 	<p><i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i></p>	<p>Closed—Final action taken by FHFA.</p>
EVL-2012-005-2	<p>FHFA should strengthen the regulatory framework around the FHLBanks' extension of unsecured credit by considering the utility of:</p> <ul style="list-style-type: none"> • establishing maximum overall exposure limits; • lowering the existing individual counterparty limits; and • ensuring that the unsecured exposure limits are consistent with the FHLBank System's housing mission. 	<p><i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i></p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>

Figure 20. Summary of OIG Reports Where All Recommendations Are Closed

Report	No. of Recommendations
<i>FHFA's Use of Government Travel Cards</i> (AUD-2014-010)	4
<i>FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</i> (AUD-2014-005)	4
<i>FHFA Can Strengthen Controls over Its Office of Quality Assurance</i> (AUD-2013-013)	7
<i>Additional FHFA Oversight Can Improve the Real Estate Owned Pilot Program</i> (AUD-2013-012)	3
<i>FHFA Can Improve Its Oversight of Fannie Mae's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies</i> (AUD-2013-011)	1
<i>FHFA Can Improve Its Oversight of Freddie Mac's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies</i> (AUD-2013-010)	4
<i>FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups</i> (AUD-2013-006)	2
<i>FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac</i> (AUD-2013-004)	2
<i>FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.</i> (AUD-2013-002)	5
<i>FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales</i> (AUD-2013-001)	3
<i>FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Serviceers</i> (AUD-2012-007)	2
<i>FHFA's Call Report System</i> (AUD-2012-006)	3
<i>FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned</i> (AUD-2012-005)	1
<i>FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management</i> (AUD-2012-004)	7
<i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</i> (AUD-2012-003)	2
<i>FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors</i> (AUD-2012-001)	5

Report	No. of Recommendations
<i>FHFA's Oversight of Fannie Mae's Default-Related Legal Services (AUD-2011-004)</i>	3
<i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation - 2011 (AUD-2011-003)</i>	9
<i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program - 2011 (AUD-2011-002)</i>	5
<i>Audit of the Federal Housing Finance Agency's Consumer Complaints Process (AUD-2011-001)</i>	3
<i>FHFA's Oversight of Derivative Counterparty Risk (ESR-2014-001)</i>	1
<i>FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America (EVL-2013-009)</i>	1
<i>FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit (EVL-2013-008)</i>	2
<i>FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs (EVL-2013-04)</i>	3
<i>Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-03)</i>	3
<i>FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001)</i>	1
<i>FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters (EVL-2012-009)</i>	4
<i>Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers (EVL-2012-008)</i>	4
<i>Follow-up on Freddie Mac's Loan Repurchase Process (EVL-2012-007)</i>	1
<i>FHFA's Certifications for the Preferred Stock Purchase Agreements (EVL-2012-006)</i>	2
<i>Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Convention and Exposition (ESR-2012-004)</i>	2
<i>FHFA's Oversight of the Enterprises' Charitable Activities (ESR-2012-003)</i>	2
<i>Evaluation of FHFA's Management of Legal Fees for Indemnified Executives (EVL-2012-002)</i>	2

Report	No. of Recommendations
<i>FHFA's Oversight of Troubled Federal Home Loan Banks (EVL-2012-001)</i>	3
<i>Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America (EVL-2011-006)</i>	2
<i>Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs (EVL-2011-005)</i>	4
<i>Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk (EVL-2011-004)</i>	3
<i>Evaluation of FHFA's Role in Negotiating Fannie Mae's and Freddie Mac's Responsibilities in Treasury's Making Home Affordable Program (EVL-2011-003)</i>	1
<i>Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs (EVL-2011-002)</i>	8
<i>Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform (EVL-2011-001)</i>	2

Appendix C: Information Required by the Inspector General Act and Subpoenas Issued

Section 5(a) of the Inspector General Act 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. Further, section 5(a) lists more than a

dozen categories of information that we must include in our semiannual reports.

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

The text that follows further addresses the status of OIG's compliance with sections 5(a)(6), (8), (9), (10), (11), (12), and (13) of the Inspector General Act. Finally, OIG provides information concerning administrative subpoenas that it issued during the semiannual period.

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.	7-17 41-42
Section 5(a)(2)- A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	7-17 41-42 81-99
Section 5(a)(3)- An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	84-94 96-99
Section 5(a)(4)- A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	20-41
Section 5(a)(5)- A summary of each report made to the Director of FHFA.	7-17 41-42
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.	7-17 105
Section 5(a)(7)- A summary of each particularly significant report.	7-17 41-42
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.	7-17 105
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.	7-17 105
Section 5(a)(10)- 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.	105
Section 5(a)(11)- A description and explanation of the reasons for any significant revised management decision made during the reporting period.	105
Section 5(a)(12)- Information concerning any significant management decision with which the Inspector General is in disagreement.	105-106
Section 5(a)(13)- The information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	106

Audit and Evaluation Reports with Recommendations of Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its reports 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 dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. Figure 21 (see below) discloses OIG's questioned and unsupported cost findings, and recommendations that funds be put to better use for the reporting period.

Audit and Evaluation Reports with No Management Decision

Section 5(a)(10) of the Inspector General Act, as amended, requires that OIG report on 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. There were no audit or evaluation reports issued before April 1, 2014, that await a management decision.

Significantly Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended September 30, 2014, FHFA significantly revised its management decisions on OIG's evaluation titled *FHFA's Oversight of the Servicing Alignment Initiative* (EVL-2014-003). Management, which had previously disagreed with OIG's recommendations, changed its position and has taken subsequent actions accordingly.

Significant Management Decision 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 current reporting period, there was one management decision with which the Acting Inspector General disagreed.

OIG disagrees with FHFA's decision in response to the evaluation titled *Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses* (EVL-2013-012). FHFA did not agree with

Figure 21. Funds to Be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period April 1, 2014, to September 30, 2014

Report Issued	Recommendation No.	Date	Potential Monetary Benefits		
			Questioned Costs	Unsupported Costs	Funds Put to Better Use
AUD-2014-015	1, 2	8/7/2014	TBD	\$-	\$-
EVL-2014-011	1, 2	8/27/2014	\$-	\$-	TBD
EVL-2014-009	1	6/25/2014	TBD	\$-	\$-
Total			TBD	\$-	TBD

OIG's recommendation to publish Fannie Mae's reduction targets and overpayment findings.*

Federal Financial Management Improvement Act of 1996

The provisions of HERA require FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

For fiscal year 2013, FHFA received from the Government Accountability Office (GAO) an unqualified (clean) audit opinion on its annual financial statements and internal control over financial reporting. GAO also reported that it identified no material weaknesses in internal controls or reportable instances of noncompliance with laws or regulations. HERA requires GAO to conduct this audit.

Several OIG reports published during the semiannual period identified specific opportunities to strengthen FHFA's internal controls. These reports are summarized on pages 7 through 17 and 41 through 42.

Subpoenas Issued

During the reporting period, OIG issued 26 subpoenas as summarized in Figure 22 (see below).

Figure 22. Subpoenas Issued for the Period April 1, 2014, Through September 30, 2014

Issuing Office	Number of Subpoenas
OA	5
OE	0
OI	21
Total	26

*This disagreement was recorded March 18, 2014, but was not reported in the October 1, 2013, through March 31, 2014, Semiannual Report to the Congress.

Appendix D: OIG Reports

See www.fhfa.oig.gov for OIG's reports.

Audit Reports

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program – 2014 (AUD-2014-021, September 30, 2014).

CliftonLarsenAllen, LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program – 2014 (AUD-2014-020, September 26, 2014).

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2014 (AUD-2014-019, September 26, 2014).

FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018, September 26, 2014).

FHFA Oversight of Freddie Mac's Information Technology Investments (AUD-2014-017, September 25, 2014).

FHFA's Representation and Warranty Framework (AUD-2014-016, September 17, 2014).

FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices (AUD-2014-015, August 7, 2014).

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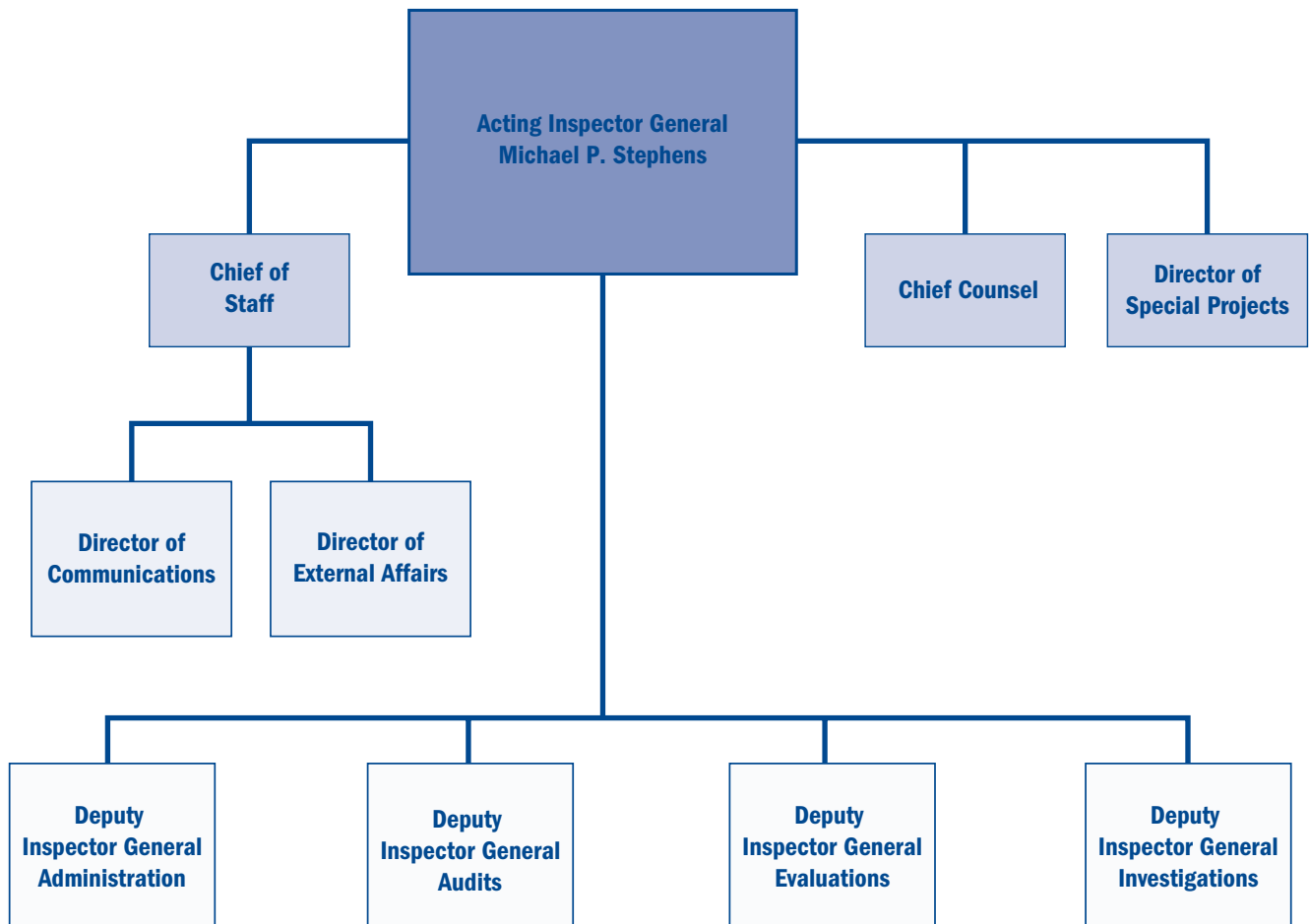
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Appendix E: OIG Organizational Chart



Appendix F: Description of OIG Offices and Strategic Plan

OIG Offices

Office of Audits

The Office of Audits (OA) provides a full range of professional audit and attestation services for FHFA's programs and operations. Through its performance audits and attestation engagements, OA helps FHFA: (1) promote economy, efficiency, and effectiveness; (2) detect and deter fraud, waste, and abuse; and (3) ensure compliance with applicable laws and regulations. Under the Inspector General Act, inspectors general are required to comply with GAO's *Government Auditing Standards*, commonly referred to as the "Yellow Book." OA performs its audits and attestation engagements in accordance with the Yellow Book.

Office of Evaluations

The Office of Evaluations (OE) provides independent and objective reviews, studies, survey reports, and analyses of FHFA's programs and operations. The **Inspector General Reform Act of 2008** requires that inspectors general adhere to the *Quality Standards for Inspection and Evaluation*, commonly referred to as the "Blue Book," issued by CIGIE. OE performs its evaluations in accordance with the Blue Book. Included within

OE is the Office of Oversight and Review (OR), which provides advice and consultation services across OIG. OR also produces special reports and white papers that address complex housing finance issues.

Office of Investigations

The Office of Investigations (OI) investigates allegations of misconduct and fraud involving FHFA and the GSEs in accordance with CIGIE's *Quality Standards for Investigations* and guidelines that the Attorney General issues.

OI's investigations may address administrative, civil, and criminal violations of laws and regulations. Investigations may relate to FHFA or GSE employees, contractors, consultants, and any alleged wrongdoing involving FHFA's or the GSEs' programs and operations. Offenses investigated may include mail, wire, bank, accounting, securities, or mortgage fraud, as well as violations of the tax code, obstruction of justice, and money laundering.

To date, OI has opened 430 criminal and civil investigations, but by their nature, these investigations and their resulting reports are not generally made public. However, if an investigation reveals criminal activity, OI refers the matter to DOJ for possible prosecution or recovery of monetary damages and penalties. OI reports administrative misconduct to management officials for consideration of disciplinary or remedial action.

OI also manages OIG's hotline that receives tips and complaints of fraud, waste, or abuse in FHFA's programs and operations. The hotline allows concerned

*Report fraud,
waste, or abuse
related to FHFA's
programs and
operations
by visiting
www.fhfaoig.gov
or calling
(800) 793-7724.*

parties to report their allegations to OIG directly and confidentially. OI honors all applicable whistleblower protections. As part of its effort to raise awareness of fraud, OI actively promotes the hotline through OIG's website, posters, emails to FHFA and GSE employees, and OIG's semiannual reports.

Executive Office

The Executive Office (EO) provides leadership and programmatic direction for OIG's offices and activities.

EO includes the Office of Counsel (OC), which serves as the chief legal advisor to the Acting Inspector General and provides independent legal advice, counseling, and opinions to OIG about its programs and operations. OC also reviews audit and evaluation reports for legal sufficiency and compliance with OIG's policies and priorities. Additionally, it reviews drafts of FHFA regulations and policies and prepares comments as appropriate. OC also coordinates with FHFA's Office of General Counsel and manages OIG's responses to requests and appeals made under the Freedom of Information Act and the Privacy Act.

The Office of External Affairs is within EO, and it responds to inquiries from members of Congress.

The Office of Communications is within EO, and it responds to inquiries from the press and public.

OIG's Equal Employment Opportunity Program is also within EO.

The Office of Special Projects is also within EO, and it supports other OIG offices on high-impact projects.

Office of Administration

The Office of Administration (OAd) manages and oversees OIG administration, including budget, human resources, safety, facilities, financial management, IT, and continuity of operations.

For human resources, OAd develops policies to attract, develop, and retain exceptional people, with an emphasis on linking performance planning and evaluation to organizational and individual accomplishment of goals and objectives. Regarding OIG's budget and financial management, OAd coordinates budget planning and execution and oversees all of OIG's procedural guidance for financial management and procurement integrity.

OAd also administratively supports the Chief of Staff and the Deputy Inspector General for Audits as they implement OIG's Internal Management Assessment Program, which requires the routine inspection of each OIG office to ensure that it complies with applicable requirements.

OIG's Strategic Plan

OIG's Strategic Plan for fiscal years 2015-2017 sets out OIG's plan to ensure the integrity, transparency, effectiveness, and soundness of FHFA's operations and the operations of the organizations that FHFA oversees. OIG will continue to monitor events; make changes to the Strategic Plan as circumstances warrant; and strive to remain relevant regarding areas of concern to FHFA, the GSEs, Congress, and the American people.

Within the Strategic Plan, OIG has established several goals that will be used as a blueprint for OIG's oversight of FHFA and independent reporting.

Strategic Goal 1—Promote FHFA's Effective Oversight of the GSEs' Safety and Soundness and Housing Missions

OIG will promote effective risk oversight by FHFA, assess FHFA's oversight of the GSEs' housing mission and goal responsibilities, and assess the effectiveness of FHFA's operations.

Strategic Goal 2—Promote FHFA’s Effective Management and Conservatorship of the Enterprises

OIG will assess FHFA’s and the Enterprises’ plans and progress on their strategic goals; assess FHFA’s effectiveness in controlling the costs of the conservatorships; and detect and deter fraud, waste, and abuse.

Strategic Goal 3—Promote Effective FHFA Internal Operations

OIG will detect and deter fraud, waste, and abuse.

Strategic Goal 4—Promote Effective OIG Internal Operations

OIG will maintain workforce expertise and collaboration to meet goals, maintain access and data security protocols with FHFA and the GSEs, and ensure reporting processes are useful to stakeholders.

Organizational Guidance

OIG has developed and promulgated policies and procedural manuals for each of its offices. These manuals set forth uniform standards and guidelines for the performance of each office’s essential responsibilities and are intended to help ensure the consistency and integrity of OIG’s operations.

Appendix G: Figure Sources

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Appendix H: Endnotes

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