Federal Housing Finance Agency Office of Inspector General

Semiannual Report to the Congress

October 1, 2012, through March 31, 2013

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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 Federal Housing Finance Agency (FHFA or agency) programs and operations; prevent and detect fraud, waste, or 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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A Message from the Inspector General

I am pleased to present OIG's fifth Semiannual Report to the Congress, which covers our activities and operations from October 1, 2012, through March 31, 2013.

Steve A. Linick
Inspector General of the
Federal Housing Finance Agency

During this semiannual reporting period, OIG continued to assess FHFA's programs and operations, focusing on high-risk mission areas affecting the nation's housing finance system and the agency's oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). Our work continues to show that, although the agency has made progress stabilizing Fannie Mae and Freddie Mac (the enterprises), FHFA can do more to enhance its role as conservator and regulator.

OIG is mindful, however, that FHFA's long-term success—and our ability to assess the enduring effectiveness, efficiency, and economy of the agency's actions—is necessarily affected by the uncertainty surrounding the fate of the enterprises and that of the housing finance system. Until the uncertainty is resolved, we will continue to focus on housing finance matters, such as managing risks and repaying taxpayers, that will remain useful to stakeholders—FHFA, Congress, and the public—whatever reform may come.

This Semiannual Report describes our audit and evaluation work during the last six months and the current status of the significant players under our purview (FHFA, the enterprises, and the FHLBanks). It also broadly sketches the historical factors that gave rise to the need for housing finance reform and the major reform proposals. Throughout our work, OIG's goal is not to favor any one reform approach but to provide useful information to stakeholders on all sides of the debate.

OIG also remains active on the law enforcement front. During this period, OIG made significant staff and resource commitments to federal and state prosecutors, who are investigating and prosecuting fraud in connection with the sale of billions of dollars of private residential mortgage-backed securities purchased by Fannie Mae, Freddie Mac, and the FHLBanks. In addition, multiple individuals were charged, convicted, and sentenced to significant prison terms based on their participation in a variety of mortgage fraud schemes. OIG investigators and attorneys made significant contributions to these cases, which were brought by federal, state, and local partners across the nation.

In closing, I want especially to thank all of the dedicated employees at OIG for their efforts. This report comes once every six months, but they work continuously throughout the year and the results of their work are long lasting.

Steve A. Linick
Inspector General
April 30, 2013

Executive Summary

Overview

This Semiannual Report discusses OIG operations and FHFA developments from October 1, 2012, through March 31, 2013.[1]

This reporting period has been particularly significant for OIG and FHFA. It is the first period since 2008 in which the enterprises, under FHFA conservatorship, have returned to profitability (after satisfying their dividend obligations to the Department of the Treasury (Treasury)). It shows the results of previous FHFA actions—such as reforming the enterprises' executive pay practices—as well as significant progress toward a more solid strategy for continuing financial stability—such as releasing an updated strategic plan for fiscal years 2013-2017.

Developments this reporting period also reflect an ongoing, concerted effort to reduce and manage risk—such as through foreclosure prevention efforts—with the ultimate goal of repaying taxpayers' investments in the enterprises.

At the same time, this reporting period finds the enterprises at a crossroads.

FHFA has enhanced the relationship between the enterprises and Treasury through amendments to the **Senior Preferred Stock Purchase Agreements (PSPAs)***—so that the enterprises are not drawing money from Treasury to pay dividends to Treasury. Additionally, FHFA has assisted the enterprises to reduce the number of foreclosed properties in their possession through, among other efforts, the real estate owned (REO) pilot initiative.

As these and other initiatives progress, the future of the enterprises is unclear as policymakers determine the best course of action for improving the stability of the housing market and defining the enterprises' role in it.

Exploring these and other issues, this report is organized as follows. Section 1, *OIG Description, Accomplishments, and Strategy*, highlights several OIG audits and reports relating to enhanced oversight, reform, and rebuilding. Section 2, *FHFA and GSE Operations*, provides a closer look at FHFA and **government-sponsored enterprises (GSEs)** developments during this reporting period. And, finally, Section 3, *Enterprise Reform*, is a detailed discussion of conservatorship reform and various reform proposals that may decide the future of the enterprises.

***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.**

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, within this section we discuss:

- *Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy* (EVL-2013-003, March 14, 2013) in which we assessed the actions FHFA has taken to understand the circumstances that led

Freddie Mac to make to Lehman Brothers two unsecured loans totaling $1.2 billion less than one month before Lehman filed for bankruptcy protection; to prevent a recurrence of these circumstances; and to recover the $1.2 billion from Lehman's bankruptcy estate;

- *FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac* (AUD-2013-004, February 21, 2013) in which we analyzed FHFA's supervisory oversight of the enterprises' controls over multifamily loan underwriting; and
- *FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales* (AUD-2013-001, October 17, 2012) in which we examined FHFA's oversight of the enterprises' efforts to recover shortfalls between foreclosure sale proceeds and the unpaid principal balances of properties securing their defaulted mortgages.

We also discuss numerous OIG investigations, which resulted in indictments and/or convictions of individuals responsible for fraud, waste, or abuse in connection with FHFA's and the regulated entities' programs and operations and in recoveries of more than $21.3 million for victims and taxpayers.

This section also covers:

- OIG's Audit and Evaluation Plan, which focuses on areas of FHFA operations posing the greatest risks to the agency and the GSEs;
- Systemic Implication Reports, which identify potential risks and weaknesses in FHFA's management control systems that OIG discovered during the course of our investigations;
- OIG Regulatory Activities, which include our assessment of proposed legislation, regulations, and policies related to FHFA; and
- OIG Communications and Outreach Efforts, which educate a broad audience on OIG, FHFA, and GSE issues 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 notable developments for each during the reporting period.

Among the most notable is the significant improvement in the enterprises' financial results. For example, Fannie Mae reported net income of $17.2 billion for 2012, compared with a net loss of $16.9 billion in 2011.[2] In addition, for the first time since the advent of the conservatorships, both enterprises were able to pay their second, third, and fourth quarter dividends to Treasury without any draw under the PSPAs.

The main drivers of this recovery are higher home prices and a reduction in credit losses in the enterprises' single-family business.

This section goes on to map out additional factors affecting the enterprises' improvement such as enhanced oversight, reform, rebuilding, and risk management and reduction. For example, the section touches on an array of FHFA activities during the reporting period, such as issuing new appraisal requirements for higher-priced mortgage loans, creating a new national mortgage database, and developing a new infrastructure for the secondary mortgage market.

Additionally, the section discusses the recovery of losses for Fannie Mae related to loan origination and servicing defects for mortgages sold to the enterprise between 2000 and 2008. This section also takes a look at activities relating directly to FHFA's involvement in the increased prevention of foreclosures and the REO pilot initiative.

And, finally, the section reviews efforts to track performance and accountability—specifically through the release of FHFA's updated strategic plan for fiscal years 2013-2017, *Preparing a Foundation for a More Efficient and Effective Housing Finance System,* and its *2012 Performance and Accountability Report.*

Section 3: Enterprise Reform

The final section in this Semiannual Report summarizes conservatorship reform and various reform proposals.

This section provides a brief look at the history of the enterprises, the factors and risks that led up to conservatorship, and Congress' enactment of the Housing and Economic Recovery Act (HERA).

It then examines the work that has been done to stabilize the enterprises—ensuring their viability to participate in a future housing finance system—and the reforms the enterprises have implemented to improve overall business operations and encourage greater private-sector participation in the secondary mortgage market.

The section also discusses FHFA's preparations for change and its five-year strategic plan that would support any outcome of the leading legislative reform proposals. This plan focuses on actions to reorganize, rehabilitate, and wind down the enterprises in order to make way for a new infrastructure in the secondary mortgage market.

The section concludes with a discussion of the various external (i.e., non-FHFA) proposals designed to reform the enterprises, which fall into the categories of government model, private model, or hybrid model.

Section 1: OIG Description, Accomplishments, and Strategy

OIG Description

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

Leadership and Organization

On April 12, 2010, President Barack Obama nominated FHFA's first Inspector General, Steve A. Linick, who was confirmed by the Senate on September 29, 2010, and sworn into office on October 12, 2010. Previously, Mr. Linick held several leadership positions at the Department of Justice (DOJ) between 2006 and 2010. Prior to that, Mr. Linick was an Assistant U.S. Attorney in the Central District of California (1994-1999) and later in the Eastern District of Virginia (1999-2006).

Mr. Linick received his Bachelor of Arts (1985) and Master of Arts (1990) in Philosophy from Georgetown University and his Juris Doctor (1990) from the Georgetown University Law Center.

OIG consists of the Inspector General, his 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 and Office of Administration 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.)

OIG Accomplishments and Strategy

From October 1, 2012, through March 31, 2013, OIG's significant accomplishments included: (1) issuing 13 audit, evaluation, and white paper reports; (2) participating in a number of criminal and civil investigations; and (3) reviewing and commenting on proposed FHFA rules.

OIG Audits and Evaluations

During this semiannual period, OIG released 13 reports, which are briefly summarized below.

Evaluations and White Papers

Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-003, March 14, 2013)

Leading up to the financial crisis in 2008, Freddie Mac and Lehman Brothers were two of the largest participants in the housing finance market, and they acted as counterparties on numerous transactions within that market. On September 15, 2008, Lehman filed for bankruptcy protection, still owing Freddie Mac $1.2 billion—the result of two short-term unsecured loans made less than a month earlier.

OIG initiated an evaluation to assess what actions FHFA has taken to, among other things, assess the causes of the $1.2 billion loss due to Lehman's default, assess the measures put in place to prevent a recurrence of such losses in the future, and recover the $1.2 billion from the Lehman bankruptcy estate.

We found that between September 2008 and December 2009, Freddie Mac and FHFA conducted several investigations. All of which concluded that, although Freddie Mac had taken steps to manage counterparty risk, its risk management policies and procedures had been overridden by senior management—multiple senior business executives had disregarded direct advice concerning the risks inherent with the Lehman short-term unsecured loans.

FHFA has made progress in its efforts to stabilize the corporate governance environment at Freddie Mac. The individuals responsible for the governance failures are no longer employed by Freddie Mac, and credit risk management is now an independent organization within Freddie Mac that no longer needs advice/approval from the business units before making risk management decisions. In addition, FHFA is actively engaged in recovering the $1.2 billion loss from Lehman.

We recommended that FHFA continue to monitor Freddie Mac's implementation of its counterparty risk management policies and procedures, pursue all possible avenues to recover the $1.2 billion in the Lehman bankruptcy proceedings, and develop an examination program and procedures encompassing enterprise-wide risk exposure to all of Freddie Mac's counterparties.

FHFA agreed with the importance of a strong risk management function at the enterprises and will continue to focus on the issues raised in the report.

FHFA's Oversight of Public Statements (ESR-2013-002, February 28, 2013)

OIG initiated an evaluation of FHFA's oversight of the enterprises' public statements after the Securities and Exchange Commission (SEC) charged six former enterprise executives with securities fraud. The SEC alleged that these executives knew of and approved misleading statements—made prior to entering the conservatorships—regarding the enterprises' holdings of high-risk mortgages. According to the SEC, these statements were made during media interviews, investor and analyst calls, congressional testimony, investor conferences, and speeches.

We found that soon after the conservatorships began, FHFA and the enterprises developed an unwritten arrangement through which it was understood that the enterprises were prohibited from issuing certain types of public statements and that other kinds of communications should be submitted to FHFA for review prior to public dissemination. However, we concluded that written guidelines were warranted and would have several advantages. Written guidelines could reduce FHFA's and the enterprises' dependency on individuals experienced with the unwritten arrangement; create uniformity between the enterprises; improve efficiency, as employees could rely on a specific set of rules; promote a culture of compliance within the enterprises; and provide the opportunity to conduct an after-the-fact audit of enterprise communications.

During the course of the evaluation, FHFA finalized written communication standards for the enterprises. The standards set specific guidelines for a variety of public statements, clarify FHFA's role in the review process, and mandate that the enterprises maintain appropriate internal policies and procedures. FHFA also committed to re-evaluating the standards in the future, and OIG will monitor FHFA's implementation of the guidelines.

FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001, December 10, 2012)

FHFA oversees the compensation of enterprise executives, including their CEOs, but it generally delegates to the enterprises responsibility for setting compensation levels for their approximately 11,900 non-executive employees.

In March 2011, OIG issued a report evaluating the enterprises' executive compensation programs and pay practices for the six most-senior executives at both enterprises. The current—December 2012—report examines pay practices affecting approximately 2,100 employees, including nearly 90 executives (CEOs, executive vice presidents, and senior vice presidents, see Figure 1, below) and 2,000 senior professionals (vice presidents and directors, see Figure 2, below).

Figure 1. Combined Enterprise Executive Compensation Subject to FHFA Oversight in 2011

Title	Number of Employees
CEO	2
Executive Vice President	23
Senior Vice President	62
Total	**87**

Note: Enterprise data provided to OIG. The number of employees includes all executives who were on the enterprises' payrolls during any portion of the calendar year.

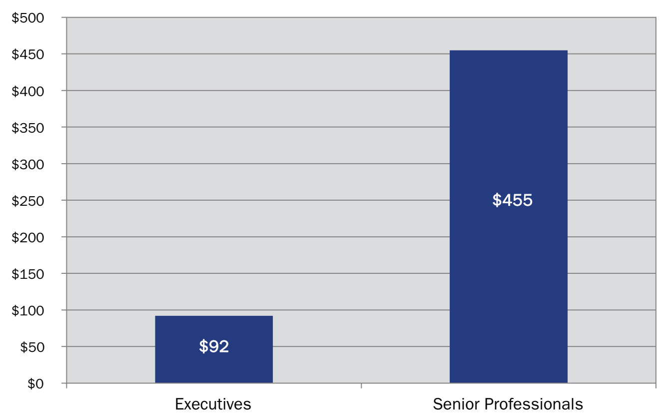
Figure 2. Combined Senior Professionals in 2011

Title	Number of Employees
Vice President	333
Director	1,650
Total	**1,983**

Note: Enterprise data provided to OIG. The number of employees includes all senior professionals who were on the enterprises' payrolls during any portion of the calendar year.

Since OIG's March 2011 report, FHFA has taken action to strengthen its control of executive compensation. In March 2012, FHFA implemented a revised compensation program that reduced the annual enterprise CEO pay approximately 90% from about $5 million to $600,000 each. However, although FHFA directly oversees the enterprises' compensation of their two CEOs and 85 other executives (who, in 2011, made a total of $91.8 million), FHFA's oversight of senior professional compensation is comparatively limited, even though their cumulative compensation is roughly 5 times that of the executives—$454.6 million (see Figure 3, below).

Figure 3. Enterprise Executives' vs. Senior Professionals' Pay ($ millions)



For example, FHFA has not reviewed, examined, or tested the structures, processes, or controls by which the enterprises compensate their senior professionals to gain assurance of their effectiveness. OIG recognizes that FHFA—having delegated non-executive compensation decisions to the enterprises—determined that doing so is the best way to manage them in conservatorship, but OIG believes that the agency's lack of independent assessment limits its capacity to ensure that the costs associated with senior professional compensation are warranted. We recommended that FHFA develop a plan to strengthen its oversight of the enterprises' compensation of their senior professionals through reviews or examinations. FHFA noted that it analyzes pay trends differently than OIG but agreed with our recommendation.

White Paper: Analysis of the 2012 Amendments to the Senior Preferred Stock Purchase Agreements (WPR-2013-002, March 20, 2013)

In August 2012, Treasury and FHFA announced a set of modifications to the PSPAs. These amendments change the structure of dividend payments owed to Treasury, increase the enterprises' rate of mortgage asset reduction, suspend the periodic commitment fee, require that the enterprises produce annual risk management plans, and exempt dispositions at fair market value under $250 million from the requirement of Treasury consent.

Based on a study of the modifications, we concluded that the 2012 amendments will have an impact on the cash flows to and from Treasury (i.e., dividends and draws), the size of the liquidation preference, and the total amount of Treasury support available to cover enterprise losses. Thus, the amendments may help to assure investors that Treasury's commitment will cover enterprise needs; the enterprises may pay more to Treasury than they would have under the previous 10% dividend; and the quarterly net worth of the enterprises will gradually be reduced to zero.

We also found that deferred tax accounting treatment coupled with the new dividend structure could result in a one-time large dividend payment to Treasury from each enterprise. In 2008, the enterprises created valuation allowances to counterbalance their unused tax assets (see Figure 4, above). Further, in light of the enterprises' newly emerging profitability, they may be required to reverse their valuation allowances for some or all of their deferred tax assets. With the new dividend structure, this reversal would require the enterprises to pay Treasury—as a dividend—the full amount of the deferred tax assets recognized as positive net worth (above a defined "buffer" amount). These dividend payments will not reduce the amount of Treasury's investment in the enterprises.

Figure 4. Valuation Allowance Related to Deferred Tax Assets as of December 31, 2012 ($ billions)

	Fannie Mae	Freddie Mac
Valuation Allowance	$58.9	$31.7

However, the long-term impact of the change in the dividend structure depends on a variety of factors, including the magnitude of fluctuations in the enterprises' net worth. These fluctuations may be influenced by, among other items, infrastructure, operating expenses, and other costs within the enterprises' discretion.

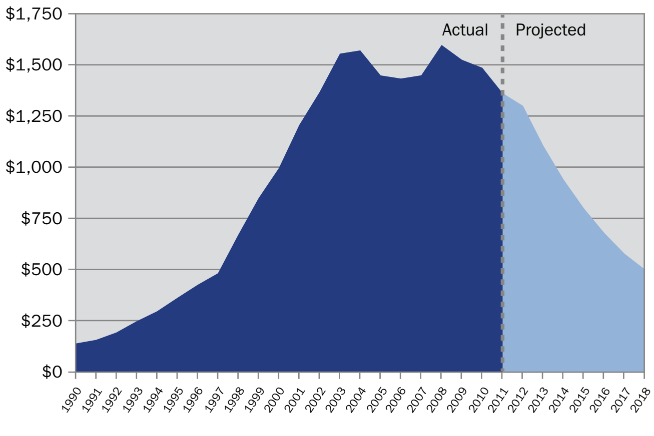
The announcement of the 2012 amendments emphasized three overarching themes: benefiting taxpayers, continuing the flow of mortgage credit, and winding down the enterprises. To some extent, the amendments provide the mechanisms to achieve these goals, and they position the enterprises to function in a holding pattern, awaiting major policy decisions.

White Paper: The Housing Government-Sponsored Enterprises' Challenges in Managing Interest Rate Risks (WPR-2013-01, March 11, 2013)

Prior to 2008, the enterprises and some FHLBanks adopted business strategies that involved large interest rate risk exposures. At the same time, the enterprises quickly increased the size of their **retained mortgage portfolios**. In fact, the enterprises' combined portfolios more than tripled from $481 billion in 1997 to $1.6 trillion by 2008 (see Figure 5, page 10).

By 2008, the size of the enterprises' retained mortgage portfolios had tripled

Figure 5. Enterprises' Retained Portfolios ($ billions)



Although FHFA and Treasury have worked to significantly reduce the size of the GSEs' portfolios—thereby limiting such risks—interest rate risk management remains a significant priority as the enterprises' portfolios still contained $1.3 trillion in assets at the end of 2011.

In light of these ongoing interest rate risks, OIG issued a white paper examining additional challenges the GSEs currently face and what strategies and tools they can use to more effectively manage interest rate risk.

Currently, the GSEs employ overall risk management strategies that rely on asset selection and **derivatives** to mitigate the interest rate risks associated with their mortgage asset portfolios. The GSEs' boards of directors and senior managers review and approve these risk management strategies and monitor their effectiveness.

The enterprises continue to use computer models to assist in the management of interest rate and other risks. However, given the increasing percentage of distressed assets in the enterprises' mortgage portfolios, they may not be able to employ existing models effectively. In addition, the enterprises face human capital risks—recruiting and retaining experienced interest rate risk staff—that could limit the effectiveness of their interest rate risk management.

FHFA has recently observed improvements in the FHLBanks' ability to manage their interest rate risks. However, several FHLBanks continue to maintain large mortgage asset portfolios and, as a result, face ongoing interest rate risk management responsibilities and challenges.

To help overcome these challenges, OIG has determined that the GSEs can employ several strategies and tools to mitigate interest rate risks. Specifically, the enterprises have the option of issuing more **mortgage-backed securities (MBS)** to investors, such as investment banks, which transfers the interest rate risk associated with MBS to the investors. Additionally, the GSEs may employ derivatives, which act like insurance policies, providing the holder with financial compensation when interest rates rise or fall. Derivatives, however, can be complex instruments that require specialized capacity, such as staffing and information systems, to be used effectively.

Based on this white paper, we plan to initiate audits and evaluations, as warranted, of FHFA's oversight of the GSEs' management of interest rate risk.

Audits

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 (AUD-2013-008, March 26, 2013)

The enterprises provide liquidity to the housing finance market by purchasing and guaranteeing residential mortgage loans ($668 billion for Fannie Mae and $296.6 billion for Freddie Mac during the first nine months of 2012).

The enterprises' counterparties—the entities that sell and service these loans—commit (also known as represent and warrant), among other things, to comply with all federal and state laws and regulations (including consumer protection statutes) applicable to originating, selling, and servicing loans. If a counterparty does not comply, the enterprises can require it to repurchase the noncompliant loan.

We assessed the agency's oversight of the enterprises' monitoring of their counterparties' compliance with their contracts, especially with consumer protection laws. We found that the agency needs to improve its oversight.

Currently, the enterprises do not review the loans they buy at the time of purchase to assess contractual compliance, and they generally rely on the counterparties' representations and warranties for assurance of their compliance with consumer protection laws. Because the enterprises can require their counterparties to repurchase loans if they discover violations, they only concern themselves with compliance issues when they, as purchasers, may be liable for noncompliance. For its part, FHFA has not performed any reviews specific to how the enterprises monitor counterparty compliance with contractual and legal obligations.

To assist FHFA with its oversight of legal compliance issues associated with loans purchased by the enterprises, we recommended that the agency develop a risk-based plan to monitor the enterprises' oversight of their counterparties' contractual compliance with applicable laws and regulations. FHFA agreed with our recommendation, which will help the agency better supervise the legal and economic risks associated with the enterprises' purchased and guaranteed mortgage portfolios.

Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements (AUD-2013-007, March 21, 2013)

The enterprises pay mortgage servicers to collect payments, interact with borrowers, and handle borrowers' complaints. The more serious complaints are called "escalated cases" and (according to FHFA and Freddie Mac's servicing guide) involve, among other things, foreclosure actions that violate the enterprises' guidelines; complaints that the borrower was not evaluated appropriately for a foreclosure alternative; and violations of the enterprises' time frames for borrower outreach.

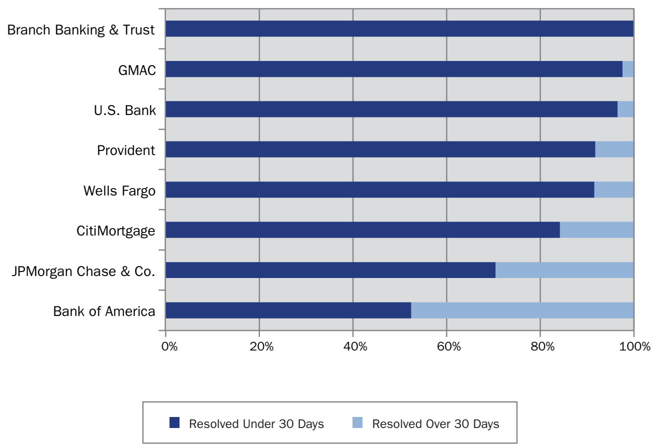
Between October 2011 and November 2012, Freddie Mac and its eight largest servicers received over 34,000 complaints that became escalated cases. A servicer's failure to quickly and accurately resolve these escalated cases can prevent foreclosure alternatives from being adequately explored with borrowers and may result in losses to the enterprise.

In early 2011, FHFA announced its Servicing Alignment Initiative (SAI). SAI requires servicers to report on the escalated cases they receive and to resolve them within 30 days. The enterprises incorporated the SAI requirements into their servicing guides and required all of their servicers to follow them.

OIG assessed the agency's oversight of Freddie Mac's controls over servicers' handling of escalated cases. We found that Freddie Mac's mortgage servicers failed to effectively and completely implement the SAI and servicing guide requirements for escalated cases, and FHFA and Freddie Mac oversight procedures were not adequate to identify servicer noncompliance.

Specifically, for escalated cases, Freddie Mac's servicers did not comply with the reporting, timely resolution, or resolution categorization requirements. For example, four of Freddie Mac's largest servicers did not report any escalated cases despite handling more than 20,000 such cases between October 2011 and November 2012. During this same period, 21% of the resolved escalated cases handled by Freddie Mac's eight largest servicers exceeded the 30-day limit (see Figure 6, page 12) and 8% of the resolved escalated cases were not properly categorized.

Figure 6. Consumer Complaints Taking More Than 30 Days to Resolve



Additionally, Freddie Mac did not implement independent testing procedures during its operational reviews of its largest national and regional servicers and as a result made no findings regarding its servicers' handling of escalated cases. Thus, FHFA's examination of Freddie Mac's implementation of SAI—which relied on the enterprise's internal review—did not identify servicers' failures to report escalated cases or resolve them in 30 days.

Lending to insurance companies may present unique risks

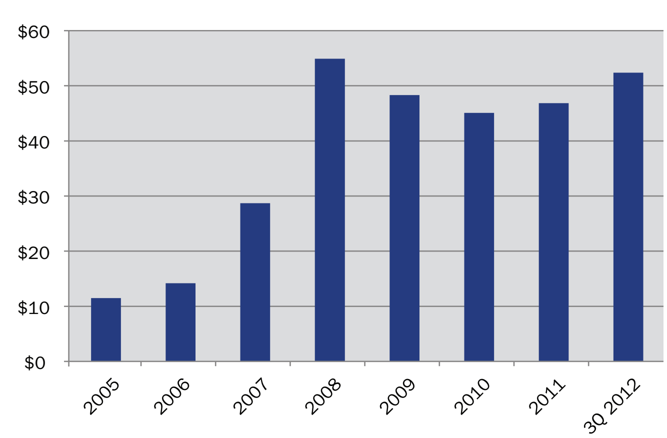
To address and resolve escalated consumer complaints in a timely and consistent manner, we recommended that the agency ensure Freddie Mac requires its servicers to report, timely resolve, and accurately categorize escalated cases; ensure that Freddie Mac enhances its oversight of the servicers through testing servicer performance and establishing fines for noncompliance; and improve its oversight of Freddie Mac by developing and implementing effective examination guidance. FHFA agreed with our recommendations, which may help the agency mitigate Freddie Mac losses by keeping more homes out of foreclosure.

FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups (AUD-2013-006, March 18, 2013)

During the past eight years, FHLBanks' advances to insurance company members have more than quadrupled—from $11.5 billion in 2005 to $52.4 billion in 2012 (see Figure 7, below). Simultaneously, the FHLBanks' advances overall have declined, which means the concentration of advances to insurance companies has significantly increased in proportion to the FHLBanks' total advances.

Lending to insurance companies may present unique, increased risks compared with lending to other FHLBank members. Specifically, insurance companies are not federally regulated and, therefore, are subject to differing state laws. In addition, insurance companies do not maintain customer deposits guaranteed by the Federal Deposit Insurance Corporation, which means it will not pay off an FHLBank advance if a member insurance company fails.

Figure 7. Total FHLBank Advances to Insurance Companies 2005 Through Third Quarter 2012 ($ billions)



Based on the unique risk and the increase in concentration of advances to insurance companies, OIG examined FHFA's oversight of FHLBank advances to insurance companies.

We found that although FHFA has taken some action to address risks associated with FHLBank lending to insurance companies—by issuing a draft advisory bulletin that identifies risks specific to insurance companies—the agency has not addressed two areas in particular that could enhance its oversight:

- Neither FHFA nor the FHLBanks obtain confidential supervisory or other regulatory information relating to insurance company members from state regulators, and without it, assessments of companies' overall financial conditions and creditworthiness may be incomplete.
- Neither FHFA nor the FHLBanks gather information from National Association of Insurance Commissioners (NAIC) working groups, which evaluate legislative and regulatory actions, emerging issues, best practices, and information sharing opportunities.

We recommended that FHFA strengthen its oversight of FHLBank advances to insurance companies by establishing mechanisms to obtain more information from state regulators and NAIC working groups. FHFA agreed with the recommendation.

FHFA's Controls to Detect and Prevent Improper Payments (AUD-2013-005, February 28, 2013)

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010, requires federal agencies to review, estimate, and report programs and activities that may be susceptible to improper payments.

OIG conducted an audit of FHFA's activities from October 1, 2011, to September 30, 2012. After reviewing applicable statutes, executive orders, and other related compliance requirements related to improper payments; reviewing various Government Accountability Office (GAO) audit reports; interviewing key FHFA officials; obtaining sufficient and appropriate evidence regarding compliance actions taken; and reviewing and assessing improper payment element requirements and related activities, we concluded that FHFA complied with IPIA, as applicable.

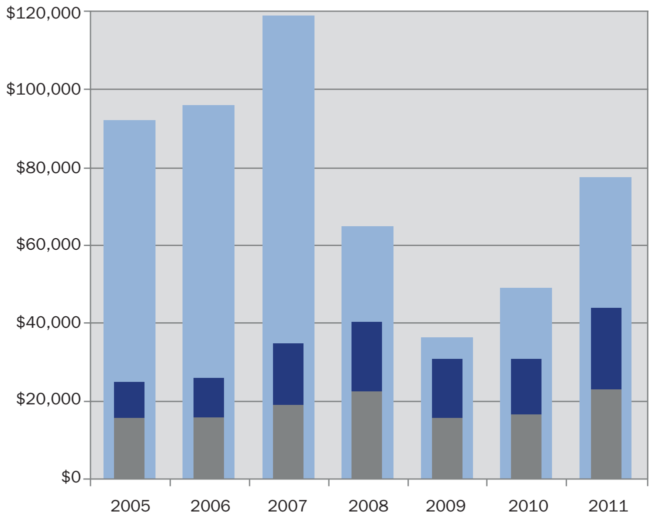
FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac (AUD-2013-004, February 21, 2013)

As the housing crisis intensified, the enterprises continued to provide a steady source of financing in the secondary mortgage market for multifamily loans (e.g., loans to purchase or rehabilitate apartment complexes). In 2011, for example, they bought nearly 57% of all domestic multifamily loans, valued at $44 billion (see Figure 8, page 14).

Given the size of the enterprises' investment, OIG assessed the agency's supervisory oversight of the enterprises' controls over multifamily loan underwriting. We found that the agency can improve its examination policies in the area of sample selection.

Specifically, FHFA lacks policies or procedures for selecting review samples to examine the enterprises' multifamily assets. In contrast, industry peers—as well as FHFA's FHLBank examiners—have adopted guidance that requires the implementation of representative or proportional sampling methods to select adequate samples from loan populations. Without such guidance, FHFA's examiners adopted different sampling methodologies for the two enterprises. For instance, the agency's Fannie Mae examiners may have chosen a sample that adequately represented the enterprise's multifamily assets, while the examiners of Freddie Mac chose a sample that may not have been representative. Freddie Mac's sample, for example, excluded higher-risk loans and only

Figure 8. Originations and Subsequent Loan Purchases for the Enterprises and Total Institutional Multifamily Lending ($ millions)



	2005	2006	2007	2008	2009	2010	2011
Fannie/Freddie Loan Financing	27%	27%	29%	62%	85%	63%	57%

Institutional Multifamily Lending ■ Fannie Mae ■ Freddie Mac

included one loan above the average loan amount (i.e., $13 million) in the enterprise's portfolio, so its sample may not have been representative of the total population.

To increase FHFA's confidence in the efficacy of its loan reviews, we recommended that the agency provide its examiners with clear guidance about how to select samples and require them to maintain adequate documentation to support their sampling methodology. FHFA agreed with our recommendations, which will help the agency better supervise the risks associated with the enterprises' large presence in the multifamily secondary mortgage market.

CliftonLarsonAllen LLP's Evaluation of the Federal Housing Finance Agency's Information Security Program – 2012 (AUD-2013-003, November 30, 2012)

According to the Federal Information Security Management Act of 2002, FHFA is required to have an annual independent evaluation of its information security program. Accordingly, this audit's objective was to evaluate the agency's information security program and practices, including its compliance with the Federal Information Security Management Act and related information security policies, procedures, standards, and guidelines. Because information in this report could be used to circumvent FHFA's internal controls, its contents have not been released publicly.

FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc. (AUD-2013-002, November 28, 2012)

OIG audited one of FHFA's contracts with Advanced Technology Systems, Inc. (ATSC), which provides IT support, to determine whether the agency's payments made to ATSC were properly supported and the goods and services received met contractual requirements. In general, we identified significant weaknesses in FHFA's overall administration, monitoring, and surveillance of the ATSC contract.

Specifically, we found that FHFA: (1) did not follow accepted contracting practices when modifying the contract/task order; (2) failed to properly negotiate contract modifications; (3) needs to strengthen its evaluation of contractor qualifications and contract project estimates; and (4) should determine whether it reimbursed ATSC for subcontractor costs that were not covered. As a result, we questioned over $361,000 of costs submitted by the contractor and paid by FHFA—approximately 13% of the contract's total value of $2.7 million.

OIG made recommendations that FHFA agreed to implement, which will help strengthen both FHFA's specific contracting controls over ATSC and general controls over the agency's procurement policies and procedures. In addition, FHFA recovered a portion of the questioned costs as a result of our recommendations.

FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales (AUD-2013-001, October 17, 2012)

In 2011, there were 341,738 foreclosure sales of properties that secured single-family residential mortgages owned or guaranteed by the enterprises. With respect to these sales, the enterprises pursued deficiencies—shortfalls between what the property was sold for and what was owed on the mortgage—totaling approximately $2.1 billion but recouped only about $4.7 million, or 0.22%.

We found that FHFA has an opportunity to provide the enterprises with guidance about effectively pursuing and collecting deficiencies from borrowers who may possess the ability to repay.

Yet, FHFA does not currently oversee the enterprises' deficiency management. Further, FHFA does not gather information about the enterprises' deficiency management practices and does not obtain data about the scope or effectiveness of their deficiency recoveries. Consequently, it is not well positioned to determine the benefit that stronger agency oversight may provide. We recommended that FHFA obtain information sufficient to analyze how the enterprises manage deficiencies and issue guidance to them on this topic. Based on the results of its analysis, FHFA should incorporate deficiency management into its enterprise oversight.

FHFA agreed with our recommendations. Implementing these changes, and better managing losses, presents the opportunity for the enterprises to recover a larger portion of their single-family foreclosure deficiencies, strengthen their financial positions, and protect taxpayers' investment in their financial health.

OIG Recommendations

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

Other Reports

Office of the Comptroller of the Currency Settlement

On February 28, 2013, the Office of the Comptroller of the Currency and the Federal Reserve memorialized a $9.3 billion settlement with 13 mortgage servicers for deficiencies in mortgage servicing practices—including improper foreclosures—related to foreclosures initiated during 2009 and 2010. Of the $9.3 billion, $3.6 billion will be provided directly to affected borrowers in the form of cash payments and the remainder, $5.7 billion, will be allocated to borrower assistance, such as loan modifications and forgiveness of deficiency judgments (i.e., payments owed to creditors, such as the enterprises, based on the difference between the sales price of a property at a foreclosure sale and the amount the borrower owes on the outstanding mortgage plus fees and other obligations).

OIG began monitoring developments in the settlement negotiations shortly after it was announced in principle on January 7, 2013. Because the servicers that are parties to the settlement serviced the majority of the enterprises' loans during 2009 and 2010, OIG believed that the settlement had the potential to result in financial recoveries for the enterprises. Specifically, the $5.7 billion in funds allocated for deficiency judgment payments and loan modifications could benefit the enterprises financially.

On February 25, 2013, OIG sent a memorandum to FHFA asking the agency to consult with the Office of the Comptroller of the Currency to obtain information on the terms of the settlement and its potential impact on the enterprises.

London Interbank Offered Rate Assessment

On June 27, 2012, DOJ announced that Barclays Bank admitted to manipulating the primary global benchmark for short-term interest rates—the London Interbank Offered Rate (LIBOR). Within days, OIG staff began analyzing how that manipulation may have affected the enterprises, specifically whether it may have increased losses that taxpayers ultimately absorbed through their investment to keep the enterprises solvent. In November 2012, after weeks of ongoing discussion with FHFA, OIG formally sent the agency our preliminary estimate of potential LIBOR-related enterprise losses and recommended that FHFA:

- require the enterprises to conduct detailed analyses of the potential financial losses due to LIBOR manipulation;
- consider options for prompt legal action, if warranted; and
- coordinate efforts and share information with other federal and state agencies.[3]

The agency agreed to implement our recommendations.

On March 14, 2013, Freddie Mac filed a complaint against Barclays Bank and more than a dozen other financial institutions in the U.S. District Court for the Eastern District of Virginia. In its complaint, the enterprise alleges that the "defendants collectively manipulated and suppressed [LIBOR], a benchmark rate indexed to trillions of dollars in interest-rate swaps and loans that plays a fundamentally important role in financial systems throughout the world" and that this manipulation "caused substantial losses to Freddie Mac."

Freddie Mac alleges banks' manipulation caused substantial losses

The following minitutorial (see pages 17-18) describes LIBOR, its relation to the enterprises, and how manipulating it can affect their bottom lines.

How LIBOR Affects the Enterprises

LIBOR is the average interest rate that financial institutions around the world, such as Barclays Bank, estimate it would cost them to borrow money from other institutions. Each day, a group of large banks are polled, the top and bottom four estimates are dropped, and the average interest rate is published. Then, banks around the world use that interest rate to benchmark their loan making and borrowing.

In total, LIBOR is involved in calculating payments for over $300 trillion.

For example, many mortgage lenders rely on LIBOR to determine the interest rates they charge for adjustable-rate mortgages. Taking into account the borrower's profile, a lender might add 2-3 percentage points to LIBOR.

LIBOR is also involved in more complicated financial products, such as floating-rate investments that do not pay a fixed rate (e.g., a savings account that pays 2% each year) but instead fluctuate. For example, if LIBOR is at 1%, a bond may advertise itself as LIBOR + 1, which means that it pays 2% interest that month and 3% the next month if LIBOR rises to 2%.

Enterprises' Floating-Rate Investments

The enterprises purchase, guarantee, and own large volumes of fixed-rate assets because they buy mortgages. Predominantly, these mortgages relate to 30-year fixed-rate loans, which opens the enterprises to the interest rate risk associated with fluctuations in prevailing interest rates.

To balance that risk, the enterprises make floating-rate investments, primarily bonds and interest rate swaps.

> **Floating-rate bonds**: For example, on entering conservatorship, Freddie Mac held approximately $299 billion in floating-rate bonds that pay prevailing rates of interest according to agreed schedules.
>
> **Interest rate swaps:** Since homeowners generally prefer stable payments, the enterprises' mortgage portfolios have more fixed-rate loans than floating-rate ones (i.e., adjustable-rate mortgages). To offset risk, the enterprises trade some of their fixed-rate interest revenue for other institutions' floating-rate interest revenue, which leads to a stable combined portfolio whether interest rates rise or fall.

In large part, LIBOR determines how much the enterprises receive from their hundreds of billions of dollars of floating-rate investments. Each month or quarter, the interest rate payments are recalculated based on LIBOR's current value, so a small change can have large effects on the enterprises' bottom lines.

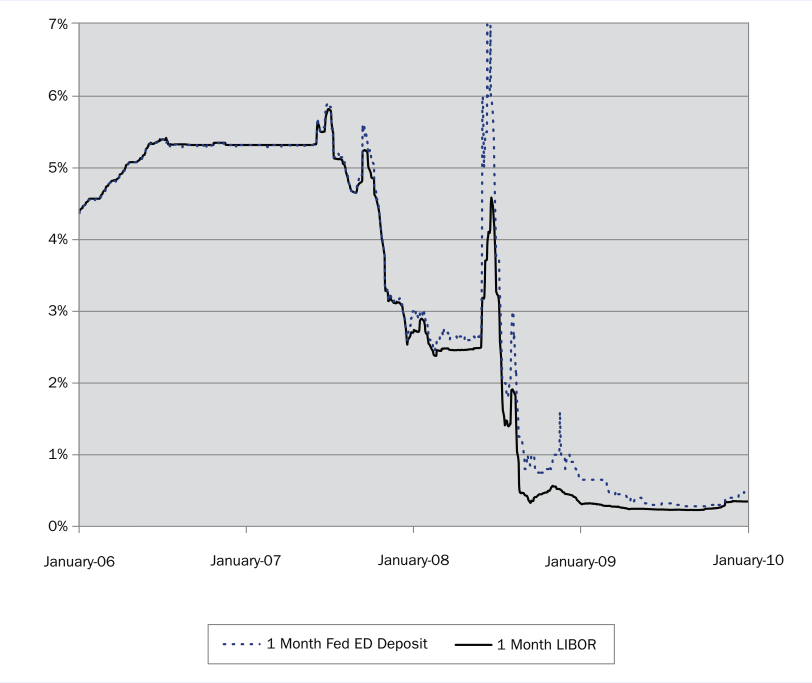
Lower LIBOR = Higher Losses

Barclays Bank admitted to systematically underestimating how much other banks would charge to loan it money, on the basis that lenders charge higher interest rates for borrowers that represent higher risk. This projected a false picture of the bank's financial condition during the recent financial crisis. That is, high-risk investment requires a high return. In this case, Barclays Bank's low LIBOR estimates projected the bank's soundness by identifying it—at least in its own opinion—as low risk. However, while the maneuver strengthened Barclays Bank, it weakened investment earnings that depended on LIBOR.

Currently, several lawsuits are underway that will help determine how widespread the practice was, but one way to gauge the effect of LIBOR manipulation on the enterprises' investments is by comparing its performance to another benchmark rate, the Federal Reserve's eurodollar deposit rate (Fed ED). Like LIBOR, this benchmark rate is determined by polling financial institutions—in this case, a larger cross section of financial institutions—to measure short-term borrowing costs. Historically, the two rates performed nearly identically; from 2000 to mid-2007, for example, the two rates mirrored each other.

However, as Figure 9 (see below) demonstrates, in early 2007 as the financial crisis deepened, LIBOR and Fed ED began to diverge. By the end of September 2008, LIBOR was 3% lower than Fed ED. For the enterprises, that could have meant 3% less return on hundreds of billions of dollars of investments if the LIBOR rate was manipulated.

Figure 9. LIBOR vs. Fed ED 2006-2010



OIG Audit and Evaluation Plan

OIG maintains an Audit and Evaluation Plan that focuses strategically on the areas of FHFA's operations posing 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.fhfaoig.gov/Content/Files/Audit%20and%20Eval%20Plan%20Oct%202012_0.pdf.

OIG Investigations

OIG investigators have participated in numerous criminal, civil, and administrative investigations, which during the semiannual period resulted in the indictment of over 53 individuals and the conviction of over 26 individuals. In many of these investigations, we worked with other law enforcement agencies, such as DOJ, the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the FBI, the Department of Housing and Urban Development Office of Inspector General (HUD-OIG), the Secret Service, and state and local entities nationwide. Further, in several investigations, OIG investigative counsels were appointed as Special Assistant U.S. Attorneys and supported prosecutions. Figure 10 (see below) provides a summary of 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 below.

Figure 10. Criminal and Civil Recoveries for the Period October 1, 2012, to March 31, 2013

	Criminal/Civil Recoveries
Fines	$135,500
Restitutions	$21.2 million
Total	**$21.3 million**

Larry Bradshaw

On March 13, 2013, Larry Bradshaw was indicted, in the U.S. District Court for the Eastern District of Missouri, for wire fraud and theft of public funds.

In 2008, Bradshaw allegedly devised a scheme to defraud an elderly woman by using a power of attorney to obtain a reverse mortgage on her residence and then diverting to himself the mortgage proceeds—over $70,000. Eventually, Fannie Mae foreclosed on the home but is negotiating with the victim to allow her to continue living there.

Anthony Jones

On March 13, 2013, in the U.S. District Court for the Eastern District of Texas, Anthony Jones was indicted for bank fraud.

From approximately September 2007 through October 2007, Jones allegedly inflated the sales prices of two homes he sold and kicked back a portion of the proceeds to the buyers. Jones bought one of the homes using a stolen identity and sold it to two separate buyers within a week of each other. The scheme caused a loss of approximately $709,000 to involved financial institutions. The enterprises, which bought or guaranteed mortgages for the homes, lost $324,000.

This was a joint investigation with the Secret Service.

Sky Investments

On March 7, 2013, in the U.S. District Court for the Southern District of Florida, Yakov Alfasi and Rafael Rubinez were sentenced to 10 months' imprisonment and ordered to pay $2.6 million in restitution. Earlier, on January 31, 2013, Alfasi and Rubinez pled guilty to conspiracy to commit wire fraud.

Alfasi and Rubinez owned Sky Investments, an independent mortgage banker, which sold loans to and serviced them for Fannie Mae. From September

2009 through August 2010, Alfasi and Rubinez stole $2.6 million from an account Fannie Mae established to pay taxes and insurance on properties serviced by Sky Investments. Alfasi and Rubinez also submitted false and misleading documents to Fannie Mae to conceal their theft and to misrepresent their company's financial health.

This was a joint investigation with the FBI. Fannie Mae's Mortgage Fraud Program provided assistance to the investigation.

Armando Granillo

On March 5, 2013, in the U.S. District Court for the Central District of California, Armando Granillo was charged with wire fraud and deprivation of honest services.

From January 2013 to March 5, 2013, Granillo, a foreclosure specialist for Fannie Mae, allegedly attempted to enrich himself by soliciting payments of at least $11,000 in exchange for favorable actions. Specifically, Granillo offered to increase the number of foreclosure listings assigned to particular realtors in exchange for 20% of their sales commissions when the properties sold.

Alex Dantzler

On March 1, 2013, in the U.S. District Court for the Northern District of Georgia, Alex Dantzler pled guilty to one count of conspiracy to commit bank fraud.

From June 2011 to July 2012, Dantzler, then a Fannie Mae contract employee, used his access to Fannie Mae's database to obtain personally identifying information for numerous Fannie Mae borrowers. He then sold this information to an individual in Atlanta, Georgia, who used it to conduct various identity theft schemes. Three other individuals have been convicted for their participation in this conspiracy.

This was a joint investigation with the FBI.

Joshua Van Orden

On February 21, 2013, in the Morris County (New Jersey) Superior Court, Joshua Van Orden pled guilty to second degree theft by deception. As a result, Van Orden will forfeit his mortgage broker license and pay a fine of $107,000.

Between September 2009 and February 2010, Van Orden obtained the property of another by creating or reinforcing the false impression that loan applications and settlement forms submitted to a lender for three borrowers were true and accurate. Van Orden, a mortgage broker, knew the information presented to his employer contained false information and omissions, including the existence of straw buyers and his undisclosed financial interest in the transactions. With respect to one of the charged transactions, Van Orden facilitated a short sale from Fannie Mae to a straw buyer, resulting in the enterprise losing approximately $150,000.

This was a joint investigation with New Jersey's Attorney General, Division of Criminal Justice.

West Ohio St. Condominiums

On February 21, 2013, in the U.S. District Court for the Northern District of Illinois, James Vani and Olabode Rotibi were indicted for conspiracy to commit wire fraud. Earlier, on January 31, 2013, Matthew Okusanya and Alex Ogoke were also indicted for conspiracy to commit wire fraud in the U.S. District Court for the Northern District of Illinois.

From 2007 to 2008, Okusanya and Ogoke allegedly developed a corporation to buy an apartment building in Chicago, Illinois; to convert the rental units to condominiums (hence West Ohio St. Condominiums); and to recruit straw buyers to buy the condominiums. Vani, a loan officer, placed false information in the straw buyers' loan applications, and Rotibi, an appraiser, inflated the appraised values of the condominiums. Through the straw buyers and misleading loan applications, they led lenders to approve loans they would not normally have approved. The enterprises purchased or guaranteed several of the loans. As of the date of the indictment, the alleged scheme had caused over $400,000 in actual losses.

This was a joint investigation with the FBI.

American Mortgage Field Services LLC

On February 20, 2013, Dean Counce, who had been convicted of conspiracy to commit wire fraud, was sentenced in the U.S. District Court for the Middle District of Florida to just over 8 years' imprisonment and 3 years' supervised release. He was also ordered to pay over $12.7 million in restitution.

American Mortgage Field Services LLC (AMFS) was a property inspection and preservation company doing business in Florida. From at least 2009 through March 2012, Counce, as president of AMFS, and some of his employees conspired to submit fraudulent reports to Bank of America for inspections of foreclosed properties that AMFS was paid for but never performed. Specifically, Counce directed AMFS employees to fabricate numerous property inspections, until these made up at least half of the inspections they submitted to Bank of America each month. The enterprises reimbursed Bank of America—as their servicer—for the fake inspections.

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

Jose Luis Salguero et al.

On January 23, 2013, Jose Luis Salguero Bedoya, Yazmin Soto-Cruz, Carmine Fusco, Kenneth Sweetman, Delio Coutinho, Joseph DiValli, Paul Chemidlin Jr., Christopher Ju, and Jose Martins Jr. were charged with conspiracy to commit wire fraud in the U.S. District Court for the District of New Jersey. The next day, all nine defendants were arrested.

From March 2008 to July 2012, the defendants and other individuals allegedly defrauded financial institutions by submitting fraudulent appraisals, sales contracts, and other documents in connection with mortgage loans submitted to lenders. Fannie Mae purchased over 100 of the defective loans from the mortgage lenders. The charges against the defendants relate to 15 properties that allegedly caused losses of approximately $10 million.

This was a joint investigation with the FBI, HUD, SIGTARP, the U.S. Postal Inspection Service (USPIS), the IRS-Criminal Investigation (IRS-CI), and the Hudson County, New Jersey, prosecutor's office.

Worthington Mortgage Group

On January 22, 2013, in the U.S. District Court for the District of Maryland, Joshua Goldberg was indicted for conspiracy to commit wire fraud in connection with a scheme allegedly to obtain mortgage loans on at least five properties on the basis of false documents.

From 2004 through 2008, Goldberg controlled Worthington Mortgage Group and allegedly conspired with others to obtain loans for his company's clients and others by submitting false appraisals, bank account and employment information, and monthly income information. The scheme resulted in multiple loan defaults, foreclosures, and losses of more than $2.5 million. Goldberg and others allegedly also concealed the properties' true sales prices from the lenders by falsifying forms and concealing kickbacks. By concealing the sales prices, they manipulated the lenders into lending more than the actual purchase price for the properties. The enterprises purchased all of the defective loans.

This was a joint investigation with the FBI and USPIS.

Harriet Taylor

On January 18, 2013, in the U.S. District Court for the District of Maryland, Harriet Taylor was sentenced to 2 years' imprisonment and 5 years' supervised release and was ordered to pay over $1.5 million in restitution. Earlier, on September 12, 2012, Taylor pled guilty to wire fraud in connection with a scheme to use real estate escrow funds for herself and her companies.

Taylor co-owned and managed two title insurance companies, Regal Title Company and Loyalty Title Company, in Columbia, Maryland. Beginning in 2009, Taylor caused mortgage lenders to wire money for real estate settlements to Regal's operating account instead of to an escrow account. Taylor also caused money in Regal's and Loyalty's escrow accounts to be transferred back and forth between their respective operating accounts. By using commingled funds throughout 2009, Taylor kept her two businesses afloat, while enriching herself with both company and escrow funds. Eventually, the escrow accounts were insufficiently funded, and Taylor could not pay the insurance premiums or recording fees nor could she pay off prior liens, including four belonging to the enterprises. As a result, her insurance underwriter lost over $1.5 million.

This was a joint investigation with the FBI and was prosecuted by the U.S. Attorney's Office for the District of Maryland with assistance from an OIG investigative counsel.

Dennis Edwards

On January 15, 2013, Dennis Edwards was sentenced in the U.S. District Court for the District of Maryland to 21 months' imprisonment and 3 years' supervised release and was ordered to pay $625,000 in restitution for conspiracy to commit bank fraud. Edwards submitted fraudulent loan applications to obtain over $2.2 million to buy or refinance homes. Freddie Mac bought some of the fraudulent loans.

This was a joint investigation with the FBI and was prosecuted by the U.S. Attorney's Office for the District of Maryland with assistance from an OIG investigative counsel.

Samer Salami

On January 15, 2013, Samer Salami was charged by the State of Michigan with five criminal counts, including embezzlement and computer crimes.

From 2006 to 2011, Salami, a real estate broker, marketed foreclosed properties for the enterprises and allegedly misrepresented the value of foreclosed properties by undervaluing them. Then, he allegedly sold the undervalued properties to his family's and friends' companies before flipping them to legitimate buyers, keeping both the illicit profit and a second round of commissions. In addition, Salami is alleged to have falsely billed the enterprises for property maintenance and collected kickbacks from other real estate brokers for steering properties to them.

This was a joint investigation with the FBI and the Wayne County, Michigan, prosecutor's office. Freddie Mac's Financial Investigations Unit provided assistance to the investigation.

Shelton Assoumou

On January 11, 2013, Shelton Assoumou was charged with wire and bank fraud in the U.S. District Court for the Eastern District of New York.

From 2008 to 2012, Assoumou allegedly posed as a real estate developer doing business as Brooklyn Renaissance Development Inc. In that capacity, Assoumou sold Brooklyn homes as investment properties, assuring investors he would manage the properties on their behalf, including collecting rents and making mortgage payments. In fact, Assoumou allegedly made little more than token efforts to manage the properties and did not pay their mortgages, so all of the loans went into default. Several properties were financed with mortgages purchased by the enterprises.

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

Jerrick Hawkins

On January 9, 2013, Jerrick Hawkins pled guilty to one count of bank fraud and two counts of false statements in the U.S. District Court for the Eastern District of Missouri. Hawkins had been indicted for these offenses on November 14, 2012.

From 2007 until September 2011, Hawkins, a real estate investor, sought loans on the basis of fraudulent documents, including pay stubs and W-2 forms. Hawkins also directed potential buyers to apply for mortgage loans supported by inaccurate records. Most of the loans ultimately went into default. The scheme involved over 14 enterprise loans and 21 Federal Housing Administration (FHA) loans.

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

Burchell Builder Bailout

On January 4, 2013, Aref Abaji, Maher Obagi, Jacqueline Burchell, Mohamed Salah, Mohamed El Tahir, and Wajieh Tbakhi were indicted for conspiracy to commit wire and bank fraud in the U.S. District Court for the Central District of California.

The indictment alleges that from 2007 through 2009, the defendants negotiated with housing developers in California, Florida, and Arizona to sell condominiums in exchange for large commissions not disclosed to the lenders. The defendants allegedly recruited straw buyers and prepared loan applications with false information in order to sell more than 100 units. The enterprises purchased many of the mortgages secured by the units, and to date, they have lost approximately $2.4 million because of related delinquencies, defaults, and foreclosures.

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

Blas and Nancy Arreola

On December 27, 2012, Blas Arreola and his wife, Nancy Arreola, were charged in the Superior Court of Stanislaus County, California, with numerous felony counts, including identity theft and conspiracy.

The Arreolas are alleged to have filed and recorded fraudulent documents, including fractional interest grant deeds to individuals who were in bankruptcy, in order to impair Freddie Mac's efforts to foreclose on the Arreolas' homes. These documents can delay foreclosure because they require foreclosure companies to work through more people—and bankruptcy courts—before taking possession of a home. Their alleged scheme, known as bankruptcy dumping, allowed the Arreolas to keep their homes while not paying their mortgages. Freddie Mac allegedly lost over $125,000 as a consequence of the Arreolas' scheme.

This is a joint investigation with the Stanislaus County District Attorney's Office and the California Attorney General's Office.

Jay Dunlap

On December 21, 2012, Jay Dunlap was indicted for bank, mail, and wire fraud in the U.S. District Court for the Eastern District of Missouri.

Dunlap is alleged to have defrauded homeowners by operating a mortgage rescue scheme in 2006. The scheme—which used a Dunlap employee as a straw buyer—involved buying and financing a property owned by homeowners who were delinquent on their mortgage. The homeowners then rented the property back for a year, with the option to purchase it thereafter. After the year had ended, Dunlap conducted a fake closing to cause the homeowners to believe that they had purchased the property. Dunlap made mortgage payments during the first year, but the payments stopped following the fraudulent closing. Fannie Mae owned or guaranteed the mortgage.

This is a joint investigation with USPIS and the Secret Service.

Emma Barbosa

On December 4, 2012, Emma Barbosa pled guilty to conspiracy to commit wire fraud in the U.S. District Court for the Eastern District of Virginia.

From September 2006 until August 2007, Barbosa worked as a loan officer with SunTrust Mortgage in Annandale, Virginia. She allegedly placed false information in loan applications and used false documents, such as W-2 forms, to qualify otherwise unqualified applicants for loans. Barbosa's activities caused losses of about $586,000.

This was a joint investigation with the FBI and was prosecuted by the U.S. Attorney's Office with help from an OIG investigative counsel.

American Mortgage Specialists

On November 29, 2012, David Kaufman and Lauretta Horton, respectively, pled guilty to obstruction and mail fraud in the U.S. District Court for the District of Arizona. Earlier, on November 19, 2012, in the U.S. District Court for the District of North Dakota, Scott Powers and David McMasters pled guilty to conspiracy to commit bank fraud.

From 2006 to 2010, all four worked for American Mortgage Specialists (AMS), a mortgage company headquartered in Mesa, Arizona, that used money from BNC National Bank (BNC)—a member of the FHLBank of Des Moines—to originate residential mortgage loans that were then sold to the enterprises and institutional investors. AMS was supposed to repay BNC with the proceeds of the sales to the enterprises and institutional investors. Instead, AMS diverted the proceeds to pay personal, payroll, and operating expenses. AMS then concealed its misapplication of the proceeds by using money from earlier mortgage sales to pay back BNC for funding current originations. The defendants also falsely represented AMS' financial health. When the fraud was discovered, AMS ceased operations, owing BNC approximately $27.5 million.

This was a joint investigation with SIGTARP and DOJ criminal division's fraud section with support from the Financial Crimes Enforcement Network (FinCEN).

Bradford Rieger et al.

On November 16, 2012, Bradford J. Rieger, a closing attorney, was sentenced in the U.S. District Court for the District of Connecticut, to 2 years' imprisonment and 5 years' supervised release and was ordered to pay a $10,000 fine. He was also ordered to pay over $743,000 in restitution on January 16, 2013. On February 14, 2013, Lawrence Dressler, a closing attorney; Genevieve Salvatore, a closing attorney; Andrew Constantinou, a loan originator; Kwame Nkrumah, the owner of All World Realty Enterprises and Homesavers LLC; Charmaine Davis, the owner of Optimum Mortgage; and Jacques Kelly, an investor, were charged in second superseding indictments in the U.S. District Court for the District of Connecticut. The indictments allege various offenses, including mail fraud, wire fraud, and false statements.

From September 2006 to November 2008, Rieger, Dressler, Salvatore, Constantinou, Nkrumah, Kelly, 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 multifamily properties in New Haven, Connecticut. In addition, from November 2006 to March 2007, Davis and Nkrumah allegedly fraudulently obtained more than $1 million in real estate loans. As part of their schemes, sellers agreed to accept significantly lower contract prices, which were not disclosed to the lenders. The conspirators then submitted false HUD-1 forms and other false loan documentation for more than $10 million in fraudulent mortgages on more than 40 properties, several of which were purchased or guaranteed by the enterprises.

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

Larry Reisman and Yvonne Gumaer

On November 8, 2012, Larry Reisman, owner of LR Development, pled guilty to conspiracy to commit money laundering in the U.S. District Court for the Eastern District of Texas.

From January 2006 to October 2008, Reisman inflated the sales price of 53 homes he built and kicked back a portion of the proceeds to recruiters and buyers. The scheme caused a loss of approximately $5.7 million, including over $500,000 lost by the enterprises, which bought or guaranteed mortgages on four of these homes.

During OIG's investigation, we found that Reisman was also involved in a scheme with Yvonne Gumaer. On January 22, 2013, as a result of our work with other federal agencies, Gumaer, in the U.S. District Court for the District of Eastern Texas, pled guilty to conspiracy to make a false statement to FHA.

From 2007 to 2008, Gumaer, an escrow officer at Regency Title Company, provided money from herself and others to borrowers for property down payments. On at least 11 homes, she disguised the source of the down payments to lenders by showing the funds were either from the buyers or gifts to them. In return for funding the down payments, Gumaer and her associates were paid fees, which were also hidden from the lenders. The scheme caused a loss of over $984,000 to involved financial institutions. Freddie Mac, which bought or guaranteed mortgages on seven of the homes, lost over $311,000.

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

Raymond Morris

On November 5, 2012, Raymond Morris, a business man, was sentenced in the U.S. District Court for the Southern District of West Virginia, to nearly 5 years' imprisonment and 5 years' probation with restitution (to be determined later) for wire and bank fraud.

From 2006 to 2007, Morris was part of a scheme that defrauded lenders by inflating the values of 30 homes. The excess loan funds were used to make borrowers' down payments and initial mortgage payments, which cost the lenders approximately $7 million. Fannie Mae bought nine of the loans and, to date, has lost approximately $921,000.

This was a joint investigation with the FBI.

Straw buyers received $14 million from $100 million in mortgages

Audrey Yeboah

On October 25, 2012, Audrey Yeboah pled guilty to wire fraud in the U.S. District Court for the Southern District of California.

From May 2007 through September 2008, Yeboah and others induced mortgage lenders to approve inflated loans for straw buyers based on false loan applications. Yeboah created fraudulent employment and income records for the straw buyers, which allowed her co-conspirators to collect at least $14 million in kickbacks from approximately $100 million in fraudulently obtained mortgage loans. Due to foreclosures and defaults, lenders lost approximately $5 million on at least 16 properties in California and Washington. Fannie Mae bought mortgages secured by five of these properties and suffered losses.

This was a joint investigation with the FBI.

Alfonso Carillo

On October 24, 2012, Alfonso Carrillo, Maria Elena Carrillo, and Rudy Breda were indicted, in the District Court for the City and County of Denver, Colorado, on numerous criminal charges, including conspiracy to commit theft and forgery.

From 2011 to 2012, the Carrillos and Breda allegedly fraudulently attempted to sell or rent foreclosed properties owned by the enterprises. To date, their activities are alleged to have caused losses of more than $150,000.

This was a joint investigation with the Denver District Attorney's Office.

Homefirst Realty Group Inc.

As reported in the prior semiannual report, nine defendants were indicted, in the U.S. District Court for the Southern District of Florida, in connection with a large-scale mortgage fraud conspiracy, doing business as Homefirst Realty Group Inc.

- On October 18, 2012, Juan Carlos Sanchez pled guilty to conspiracy and wire and bank fraud, and on January 3, 2013, he was sentenced to 15 years' imprisonment followed by 3 years' supervised release.
- On November 28, 2012, Celeste Mota was sentenced to 5 years' probation and ordered to pay over $242,000 in restitution.
- On December 12, 2012, David Arboleda was sentenced to 2½ years' imprisonment and 3 years' supervised release.
- On January 3, 2013, Sandra Campo pled guilty to conspiracy, and mail and wire fraud.
- On January 11, 2013, Edward Mena was sentenced to 4½ years' imprisonment and 5 years' supervised release.
- On January 15, 2013, Dayanara Montero pled guilty to conspiracy, and mail and wire fraud.
- On January 16, 2013, Osbelia Lazardi pled guilty to conspiracy, and mail and wire fraud.
- On February 26, 2013, Marina Superlano and Marisa Perez pled guilty to conspiracy.

Sanchez, Mota, Campo, Mena, Montero, Lazardi, and others conspired to recruit individuals to purchase condominium units at Marina Oaks Condominiums, located in southern Florida, and then prepared false documents that were submitted to financial institutions in connection with the individuals' applications for loans to finance the condominium unit purchases. OIG's investigation has examined 165 mortgage transactions involving the conspirators and over $39 million in mortgage loans. Of these, 131 properties have been foreclosed on, and another 26 are in foreclosure. The enterprises purchased many of the mortgages, and Fannie Mae has reported losses of over $4.1 million to date.

Civil Cases

During the reporting period, OIG participated in three civil cases:

- ***Residential Mortgage-Backed Securities.*** The New York State Attorney General instituted civil proceedings against JP Morgan Chase (as successor in interest to Bear Stearns) and Credit Suisse alleging violations of the New York State Martin Act in connection with the sale of residential mortgage-backed securities (RMBS). OIG made significant contributions—including assisting with the interviews of witnesses and the review of documents—in connection with both cases.

- ***Countrywide Hustle.*** On October 24, 2012, the U.S. Attorney for the Southern District of New York filed a civil mortgage fraud lawsuit against Bank of America Corporation and its predecessors, Countrywide Financial Corporation and Countrywide Home Loans Inc., for engaging in a scheme to defraud the enterprises. The complaint seeks damages and civil penalties under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Specifically, the complaint alleges that from 2007 through 2009, the defendants implemented a loan origination process known as the "Hustle." The Hustle was designed to process loans at high speeds and without quality verifications. According to the complaint, the Hustle generated thousands of fraudulent and otherwise defective residential mortgage loans that were later sold to the enterprises and caused over $1 billion in losses and countless foreclosures. The government amended its complaint on January 11, 2013, among other things, to add a claim against a former Countrywide and current Bank of America executive, who was responsible for implementing the Hustle. This case is the result of a joint action with the U.S. Attorney's Office for the Southern District of New York and SIGTARP.

Systemic Implication Reports

Systemic Implication Reports 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.

Enterprise Oversight of Property Preservation Inspections (SIR-2013-0002, November 26, 2012)

OIG investigations disclosed that a property preservation contractor submitted almost $13 million in fraudulent claims for enterprise properties. This indicates a potential systemic problem industry-wide for inspections paid for by the enterprises. In general, we concluded that the enterprises' servicers subcontract for property inspections but may lack adequate processes to evaluate their subcontractors' ability to perform the services. Consequently, we recommended that FHFA assess the enterprises' oversight of property preservation inspections.

Weakness in Enterprises' Uniform Residential Loan Application (Freddie Mac Form 65/Fannie Mae Form 1003) (SIR-2013-001, November 15, 2012)

The mortgage applications that the enterprises currently rely on do not ask borrowers if they have submitted multiple applications for the same property. As a result, brokers have, at times, been able to secure multiple loans from multiple lenders by simultaneously submitting loan applications for an individual property to several lenders. We recommended FHFA determine whether to include a specific question on the residential loan application about the existence of pending loans.

OIG 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 Federal Deposit Insurance Corporation

Office of Inspector General; the IRS-CI; SIGTARP; FinCEN; and other federal, state, and local agencies.

During this reporting period, OI has continued to work closely with FinCEN to review allegations of mortgage fraud for follow-up investigations and to determine where we can best assign special agents to investigate fraud against the GSEs. OIG also pursues innovative approaches to ensure its investigations are prosecuted timely. For example, OIG has provided dedicated OIG investigative counsels with substantial criminal prosecution experience to U.S. Attorneys' Offices to help prosecute OIG's investigations. In addition, OIG has partnered with a number of state attorneys general to pursue shared law enforcement goals.

OIG 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, OIG made substantive comments on a final rule, a draft notice, and two draft proposed rules. Additionally, two rules and an advisory bulletin that OIG previously commented on were finalized and published during the reporting period.[4]

1. **Advisory Bulletin: Collateralization of Advances and Other Credit Products Provided by FHLBanks to Insurance Companies (Published October 5, 2012)**

   In the last reporting cycle, OIG commented on FHFA's draft advisory bulletin on the collateralization of advances and other credit products provided by the FHLBanks to insurance companies. OIG's September 28, 2012, comment expressed two concerns. First, we commented that an advisory bulletin rather than a formal rulemaking had been used to adopt the standards for the collateralization of advances to insurers, and that, consequently, there was no legally enforceable mechanism by which to ensure the safety and soundness of the FHLBanks. FHFA attempted to address our concern by issuing its October 5, 2012, notice with an opportunity for comments on whether FHFA should consider establishing specific and uniform standards for making advances to insurance companies. However, the standards continue to be embodied in an advisory bulletin rather than in a legally enforceable regulation, seeking comment on whether uniform enforceable standards should be adopted does not address our first concern.

   Our second concern is still subject to ongoing discussions between FHFA and OIG. Therefore, the substance of our comments and their resolution will be published at a later date.

2. **FHFA Final Rule: 2012-2014 Enterprise Housing Goals (RIN 2590-AA49, Published November 13, 2012)**

   Two reporting cycles ago, FHFA drafted a proposed rule pursuant to section 1128 of HERA that established annual housing goals. The rule established annually adjustable benchmarks governing mortgage purchases by the enterprises from 2012 through 2014. We commented that, given HERA's repeal of section 1334 of the Safety and Soundness Act—which authorized race-based considerations in housing goals for the purpose of complying with the Community Reinvestment Act—FHFA should be careful not to import race-conscious decision making into the housing goals without laying a proper foundation (i.e., demonstrating what compelling interest is addressed by the race-conscious decision making). We recommended that FHFA amend the national housing needs factor to clarify that a race-conscious analysis was not intended or to adequately justify such analysis if it was intended. On November 13, 2012, FHFA issued a final rule on the 2012-2014 enterprise housing goals. FHFA did not adopt our recommendation.

3. **FHFA Proposed Rule: Availability of Non-Public Information (RIN 2590-AA06, Published January 29, 2013)**

   In the last reporting cycle, FHFA proposed a draft rule prohibiting the disclosure of nonpublic information by FHFA employees, including those who work in OIG. OIG's August 23, 2012, comment on the rule noted that, although the rule can ensure that employees, including those who work for OIG, do not make any unnecessary or unwarranted disclosures of unpublished information, it cannot curtail or thwart OIG's statutory responsibility to publically report the results of audits, evaluations, and investigations under the Inspector General Act. In response to our comments, FHFA added regulatory language to the rule published on January 29, 2013, that made clear that it did not supersede, either in fact or intent, OIG's statutory authority. Specifically, FHFA defined the term "law enforcement proceedings" to authorize OIG to disclose nonpublic information to the extent required by the Inspector General Act.

4. **FHFA Final Rule: Organization and Functions, and Seal (RIN 2590-AA54, OIG Comments Submitted on October 9, 2012)**

   Prior to issuing its December 10, 2012, final rule concerning FHFA's organization, functions, and seal, FHFA sought OIG's input. The email transmitting the draft rule to OIG for comment stated that under the final rule future functional and/or organizational changes will not require publication. OIG's October 9, 2012, comment noted that the Freedom of Information Act requires publication in the *Federal Register* of any amendments to or repeals of the organizational structures or functions of FHFA's components (see 5 U.S.C. 552(a)(1) and 552(a)(1)(E)). The final rule has not been altered to reflect the Freedom of Information Act publication requirement and, therefore, cannot be said to appreciate our recommendation.

5. **FHFA Draft Proposed Rule: Enterprise Public Use Database and Proprietary Information; and Request for Comment on Applicability to the Federal Home Loan Banks (RIN 2590-AA55, OIG Comments Submitted on November 12, 2012)**

   FHFA forwarded to OIG a draft proposed rule implementing HERA's requirement to make available to the public the nonproprietary single-family and multifamily loan-level mortgage data elements submitted to FHFA by the enterprises in their mortgage reports, to maintain a public use database for such mortgage data, and to govern the enterprises' public use database and proprietary information determinations. Due to ongoing discussions between FHFA and OIG regarding this draft, the substance of OIG's December 12, 2012, comment and its resolution will be published at a later date.

6. **FHFA Draft Notice: Examination Rating System (Published November 13, 2012)**

   Prior to publishing its November 13, 2012, notice establishing an examination rating system for the FHLBanks and the enterprises, FHFA requested comment from OIG. Due to ongoing discussions between FHFA and OIG regarding this notice, the substance of OIG's November 6, 2012, comment and its resolution will be published at a later date.

7. **FHFA Proposed Rule: Production of FHFA Records, Information and Employee Testimony in Legal Proceedings (RIN 2590-AA51, Published February 8, 2013)**

   FHFA published a proposed housekeeping rule that governs the production of FHFA records, information, or employee testimony in connection with legal proceedings in which neither the United States nor FHFA is a party. Due to ongoing discussions between FHFA and OIG regarding this notice, the substance of OIG's November 6, 2012, comment and its resolution will be published at a later date.

OIG 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, OI made over 35 presentations to law enforcement officials, real estate and banking industry professionals, 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 the FBI, HUD-OIG, and the Secret Service. In addition, OI developed a partnership with the National Association of District Attorneys to train local and state law enforcement officials and prosecutors throughout the country.

With respect to presentations to housing professionals, OI (as well as other OIG offices) made numerous presentations to professional organizations, such as the Mortgage Bankers Association and the Association of Appraisal Regulatory Officials, describing fraud trends in the mortgage industry.

To stop mortgage fraud and prevent further exploitation, OI reached out to homeowners and victims of mortgage fraud schemes and worked with the National Crime Prevention Council.

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 its effort to raise awareness of fraud and how to combat it, OIG promotes the Hotline through its website, posters, emails targeted to FHFA and GSE employees, and its semiannual reports.

The Hotline for fraud, waste, or abuse related to FHFA's programs and operations is (800) 793-7724 or oighotline@fhfaoig.gov

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 (VA), the Department of Agriculture (USDA), 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 March 31, 2013, we participated in the following cooperative activities:

- ***RMBS Working Group.*** On January 27, 2012, shortly after a statement by the President during his State of the Union address, the Attorney

General issued a memorandum announcing the formation of the RMBS Working Group. The RMBS Working Group is designed to investigate misconduct in the market for MBS, particularly during the period prior to the onset of the financial crisis in 2008. Specifically, it seeks to streamline and strengthen current and future efforts to identify, investigate, and prosecute instances of wrongdoing in packaging, selling, and valuing RMBS and related mortgage products. The RMBS Working Group consists of federal, state, and local partners, including DOJ, U.S. Attorneys, the New York State Attorney General, HUD, FinCEN, the SEC, the FBI, the IRS-CI, and the Consumer Financial Protection Bureau. As a member of the RMBS Working Group since its formation, OIG has made numerous significant contributions to the joint effort.

- ***Council of the Inspectors General on Integrity and Efficiency.*** OIG actively participates in several Council of the Inspectors General on Integrity and Efficiency (CIGIE) committees and working groups.

    - *The Inspection and Evaluation (I&E) Committee.* The I&E Committee established a working group to conduct a pilot "peer review" program for I&E units in the OIG 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.

      Three members of our staff participated in the CIGIE peer review pilot program.

    - *CIGIE Suspension and Debarment Working Group.* The Inspector General serves as co-chairman of the CIGIE Suspension and Debarment Working Group, which is charged with improving the effectiveness of federal suspension and debarment practices. The working group regularly conducts activities to these ends.

      Most recently, the working group presented its 2012 Suspension and Debarment Workshop on November 16, 2012, in Alexandria, Virginia. The workshop—which the working group co-sponsored with the Interagency Suspension and Debarment Committee—focused on potential suspension or debarment actions based on information obtained through routine OIG investigation, audit, evaluation, or inspection activities. Such referrals are commonly known as "fact-based" or "evidence-based," as opposed to suspensions or debarments imposed on the basis of indictments or convictions. The workshop featured speakers from the inspector general community, the suspension and debarment official community, and DOJ. This was the third workshop presented by the working group, which looks forward to providing comparable suspension and debarment training for federal practitioners in 2013.

- ***Council of Inspectors General on Financial Oversight.*** OIG actively participates in the Council of Inspectors General on Financial Oversight. During the reporting period, we participated in a joint audit of the Financial Stability Oversight Council's efforts to evaluate Financial Market Utilities to determine whether they qualify as systemically important.

- ***Federal Housing Inspectors General.*** OIG spearheaded the creation of a new interagency working group, the Federal Housing Inspectors General. In addition to OIG, this group includes the offices of inspector general for other federal agencies with primary responsibility for federal housing, including HUD, VA, and USDA. The Federal Housing Inspectors General continue to collaborate on multiple joint initiatives.

Communicating with Congress

In fulfilling our mission, OIG works in close partnership with Congress and is committed to keeping Congress fully apprised of our oversight of FHFA. The Inspector General meets regularly with members of Congress, and he and his staff provide frequent briefings to key congressional committees and offices. Briefing topics include 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. During the reporting period, the Inspector General responded to formal written inquiries from members of Congress on various topics, including high-priority unimplemented recommendations, climate change, and possible LIBOR manipulation.

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

Section 2: FHFA and GSE Operations

Overview

HERA created FHFA in July 2008 to oversee vital components of our nation's secondary mortgage markets.[5] As an independent government agency, 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.[6]

In 2012, the enterprises were profitable for the first time since 2006 and the FHLBanks' profits increased by 80% compared to the previous year. In this section, we provide an overview of FHFA and its relationship with Fannie Mae, Freddie Mac, and the FHLBanks (collectively known as the housing GSEs); a brief discussion of the GSEs' business models and the primary reasons for their improved financial results; and a summary of selected FHFA and GSE activities.

In 2012, the enterprises were profitable again and the FHLBanks' profits rose 80%

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.[7] 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.[8]

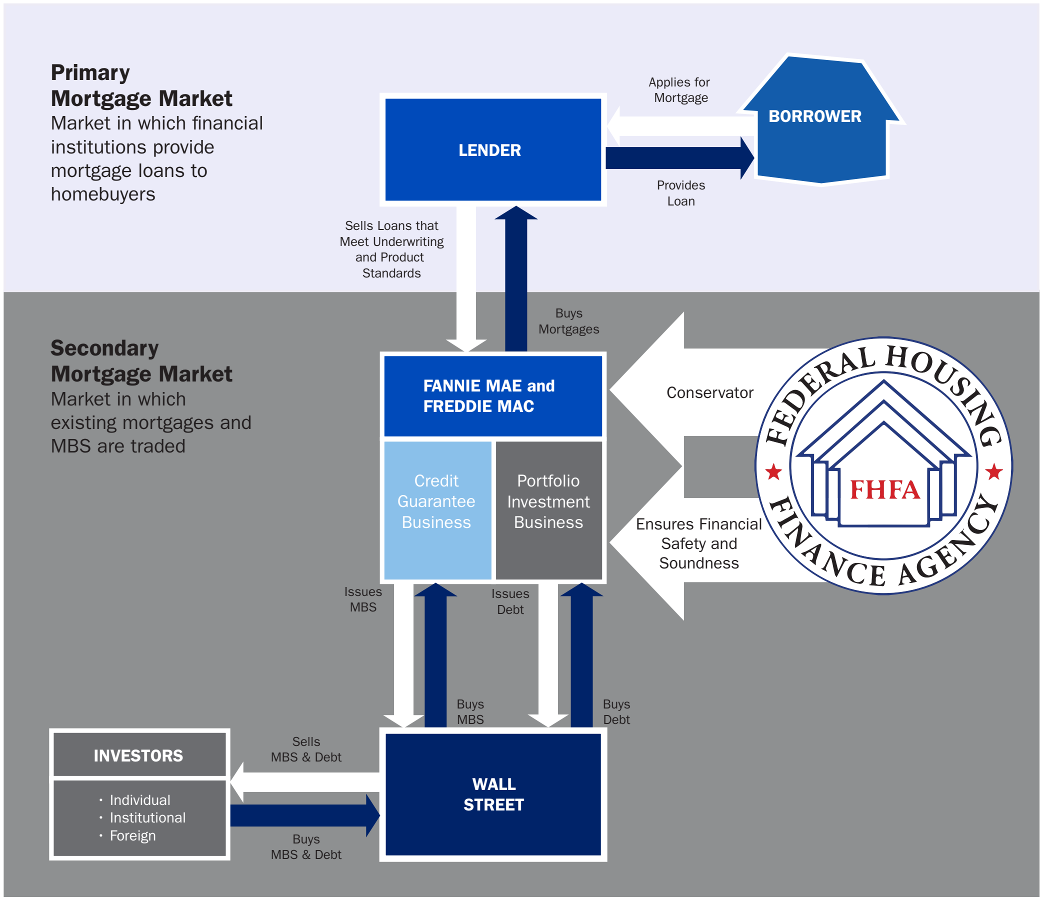
The enterprises were chartered by Congress to provide stability and liquidity in the secondary market for home mortgages. They fulfill this charter by purchasing residential loans from loan originators that can use the sales proceeds to make additional loans. These purchased loans are either held by the enterprises as investments or pooled and packaged as MBS that are, in turn, sold to investors. Additionally, the enterprises—for a fee—guarantee the payment of principal and interest on the loans they package into MBS. Under HERA, the enterprises receive financial support from Treasury to prevent their liabilities from exceeding their assets, subject to a cap.[9]

FHFA and the Enterprises' Role 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.[10]

As Figure 11 (see page 35) 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

Figure 11. Overview of the Enterprises and FHFA's Role



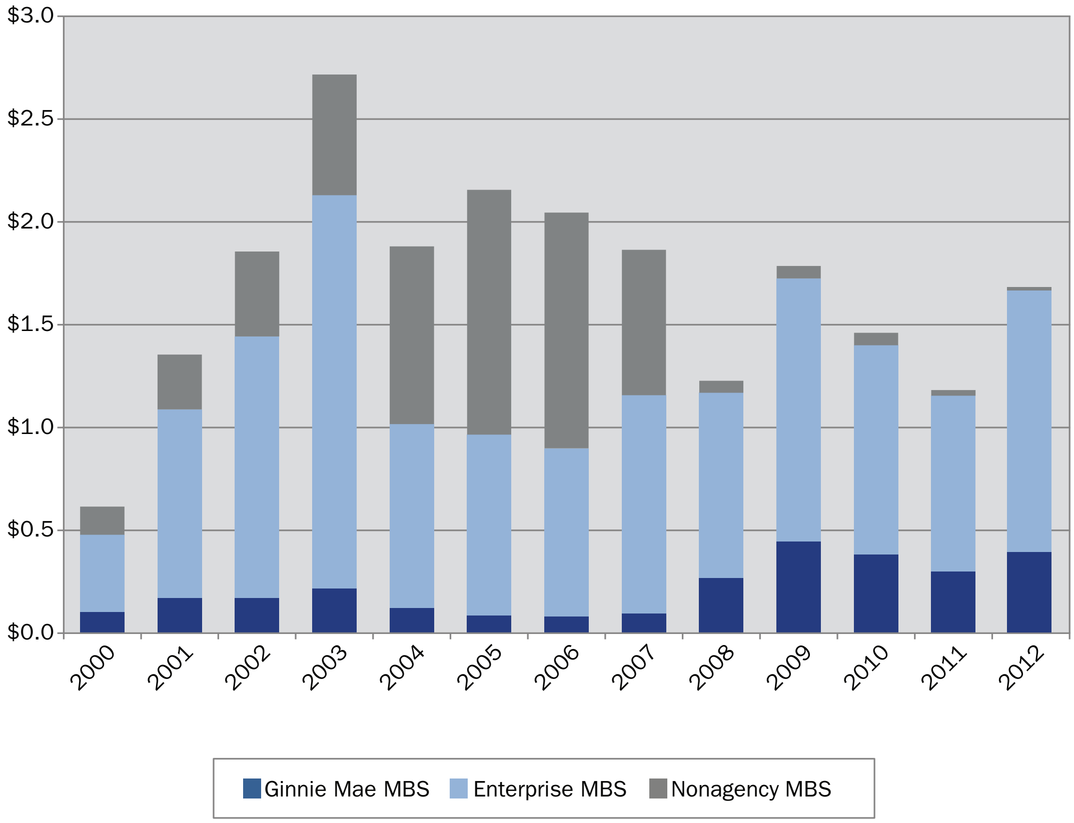
mortgages that lenders—such as banks, credit unions, and other retail financial institutions—originated for homeowners.

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.[11]

Enterprises' Market Share of the Secondary Market

As Figure 12 (see page 36) illustrates, after losing market share to nonagency competitors during 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.[12] Since entering conservatorship in September 2008, the enterprises have bought and guaranteed approximately three out of every four mortgages originated in the United States.[13] By providing a majority of the liquidity to the housing finance

Figure 12. Primary Sources of MBS Issuances from 2000 to 2012 ($ trillions)



market, the enterprises (and therefore the taxpayers) own a majority of the mortgage credit risk.[14]

On February 21, 2012, FHFA issued its strategic plan for the enterprises, which includes plans to gradually shift mortgage credit risk from the enterprises to private investors and to eliminate the direct funding of mortgages by the enterprises. These plans also include increasing the enterprises' guarantee fees on MBS to encourage greater mortgage market participation by private firms.[15] Regarding shifting credit risk from the enterprises, the majority of their credit risk is wrapped up in their MBS guarantees.

On March 4, 2013, FHFA instructed the enterprises to innovate and test the viability of multiple approaches for sharing credit risk with, or transferring it to, private investors. For 2013, FHFA established a goal of sharing or transferring $30 billion in risk.[16]

The enterprises' investment portfolios—currently capped at $1.3 trillion—represent a smaller but substantial credit risk, and FHFA and Treasury have moved to reduce this risk by accelerating the divesture of the portfolios.[17]

The original PSPAs established a ceiling for the amount of mortgage assets the enterprises are able to own in their investment portfolios and required them to reduce the size of their portfolios each year by 10%. The ceiling was set at a maximum size of $250 billion each (or $500 billion combined).[18] On August 17, 2012, Treasury issued an amendment to the PSPAs. The amendment accelerates the wind down of the enterprises' investment portfolios.[19] Specifically, it requires each enterprise to reduce the size of its portfolio by 15% annually.[20] Pursuant to the amended PSPAs, the enterprises are scheduled to reach their ceilings by 2018.

With respect to guarantee fees and encouraging private participation in the secondary market, on April 1, 2012, at the direction of FHFA, the enterprises increased guarantee fees by 10 **basis points**. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this increase are being remitted to Treasury on a quarterly basis to fund the now expired payroll tax cut.[21]

In the fourth quarter of 2012, the enterprises implemented, again at FHFA's direction, an additional increase in guarantee fees on single-family mortgages by an average of 10 basis points.[22]

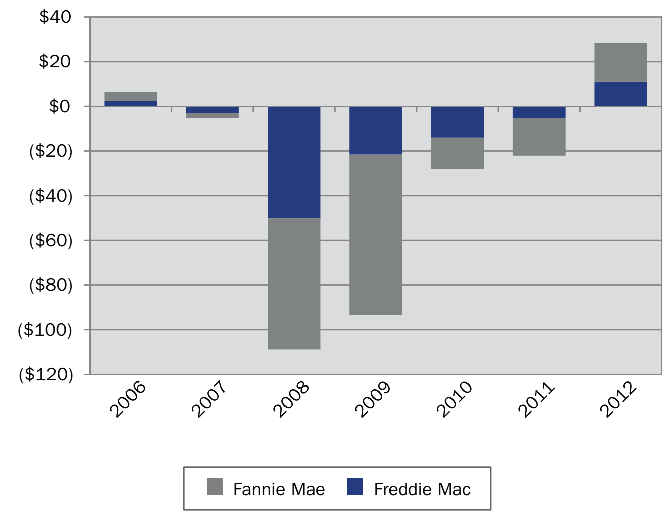
Additionally, in September 2012, FHFA also requested public comment on a proposed approach under which the enterprises would adjust the delivery fees charged on single-family mortgages in states where costs related to foreclosures are statistically higher than the national average. FHFA stated in its September 2012 announcement that it expects to direct the enterprises to implement the pricing adjustments in 2013.[23]

Enterprises' Financial Performance and Government Support

In 2012, the enterprises had their first profitable year since 2006 (see Figure 13, above).[24]

As shown in Figure 14 (see page 38), Fannie Mae reported net income of $17.2 billion for 2012, compared to a net loss of $16.9 billion for 2011.[25] Freddie Mac reported net income of $11 billion for 2012, compared to a net loss of $5.3 billion for 2011.[26] The profitability of the enterprises is primarily due to improvements in the credit quality of their single-family business—leading to reduced credit-related expenses—and the positive impact that the increase in national home prices has had on reducing estimated loan losses.[27] Additionally, their interest rate risk and other market risks improved

Figure 13. Enterprises' Annual Net Income (Loss) from 2006 to 2012 ($ billions)



in 2012 compared to 2011 as derivative losses decreased significantly.[28]

Improved Credit Quality of New Single-Family Business

Fannie Mae's credit-related income for 2012 was $1.1 billion, compared to credit-related expenses of $27.5 billion for 2011.[29] Freddie Mac's credit-related expenses for 2012 declined to $1.9 billion, compared to $11.3 billion for 2011. The reduced credit-related expenses are primarily the result of improvements in the credit quality of each enterprise's single-family book of business as higher credit quality leads to lower loan delinquencies.[30]

The enterprises' single-family book of business consists 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 (excluding Home Affordable Refinance Program (HARP) and other relief refinance mortgages) is significantly better than that of those 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.[31]

Figure 14. Enterprises' Summary of Net Income (Loss) for the Years Ended December 31, 2012, and 2011 ($ billions)

	Fannie Mae		Freddie Mac	
	2012	2011	2012	2011
Net Interest Income	$21.5	$19.3	$17.6	$18.4
Credit-related Income (Expenses)	1.1	(27.5)	(1.9)	(11.3)
Loss on Derivative Agreements	(3.6)	(6.6)[a]	(2.4)	(9.8)
Impairment of Securities Considered Other than Temporary	(0.7)	(0.3)	(2.2)	(2.3)
Other Income (Expense)	(1.1)	(1.8)	(0.1)	(0.3)
Net Income (Loss)	**$17.2**	**($16.9)**	**$11.0**	**($5.3)**

[a] Loss on derivatives referenced to Table 13, p. 79, in the Fannie Mae 2012 10-K Report.

This improved credit quality on loans purchased by the enterprises 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%).[32]

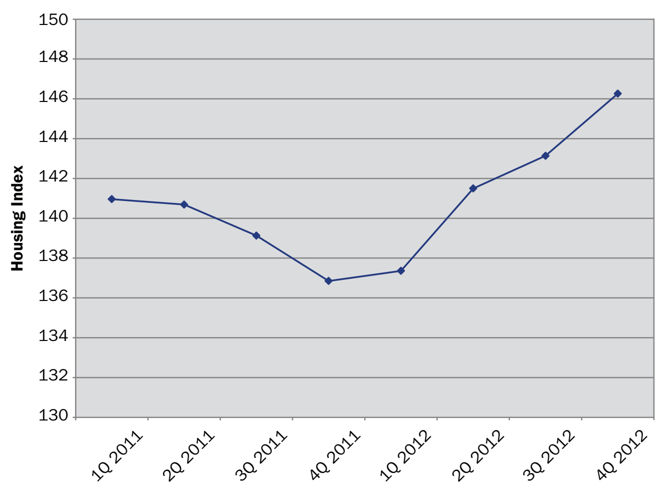
Further, overall, since the beginning of 2009, the enterprises are holding more loans with higher credit quality in their single-family new book of business. As of December 31, 2012, Fannie Mae's and Freddie Mac's book of business comprised 66% and 63%, respectively, of these loans.[33] Conversely, the legacy housing boom loans acquired during 2005 through 2008, which have a higher probability of credit defects, have declined to 22% of the single-family book of business for Fannie Mae and 24% for Freddie Mac as of December 31, 2012, compared to 31% (Fannie Mae) and 32% (Freddie Mac) as of December 31, 2011.[34]

Impact of National Home Prices on Credit Losses

Another factor influencing credit-related expenses, i.e., credit losses, is national home prices. An increase in home prices can have a positive impact on reducing the likelihood that loans will default and reduce the estimated credit losses on the loans that do default.[35]

As shown in Figure 15 (see below), the S&P/Case Shiller Home Price Indices for the last eight quarters ending December 31, 2012, show a steady increase in the housing index since the first quarter of 2012.

Figure 15. Home Price Index 2011 Through 2012



Modest Declines in Interest Swap Rates Lead to Reduced 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.[36] Derivative instruments include written options, interest rate guarantees, and short-term default guarantee commitments.[37] Fannie Mae's derivative losses for 2012 declined to $3.6 billion, compared to $6.6 billion for 2011. Freddie Mac's derivative losses for 2012 declined to $2.4 billion, compared to $9.8 billion for 2011. Derivative losses declined primarily due to modest declines in swap rates in 2012 compared to 2011, when the swap rates declined significantly.[38]

The following minitutorial (see pages 40-41) provides a detailed explanation of derivatives.

Derivatives

Contracts between financial institutions that lay out how much and under what conditions money will be paid by or to the parties involved are commonly referred to as derivatives because their values are derived from other instruments. For example, Freddie Mac may contract to pay a premium to a company in exchange for some reimbursement if enterprise-owned or -guaranteed mortgages default.

From an institution's perspective, purchasing a derivative to hedge against risks is a prudent option when the risks of loss outweigh the costs of the derivative contract. Along these lines, the enterprises use derivatives to insure against risks that come from having large portfolios laden with long-term fixed interest rate mortgage assets. Such assets are susceptible to various risks, such as rising interest rates, prepayment, and defaults.

Rising Interest Rate Risk

While a 3.5% fixed mortgage interest rate of return might be a good asset in today's market, its value is vulnerable to rising rates. In 1998, for example, the prevailing interest rate for 30-year fixed-rate mortgages was nearly 7%.[39] If interest rates climb back to that level in the next 15 years, the enterprises could be stuck with a portfolio of mortgage assets that are paying half the going rate. To hedge against such risk, the enterprises use an interest rate guarantee derivative.

Interest rate guarantees: The enterprises contract with a financial institution to swap payments from some of their fixed-interest rate investments with payments from their counterparties' fluctuating (or floating) interest rate investments. This protects the enterprises because the additional cash from the floating-rate interest payments will offset the declining value of their fixed-rate mortgages.

Prepayment Risk

Alternately, interest rates may fall. If they do, then scores of mortgagees may refinance and pay off their higher-rate loans. This will cause the enterprises to lose expected income because—with prevailing rates lower than 3.5%—they will be unable to reinvest their principal at the prior higher rate. To guard against prepayment risk, the enterprises use written option derivatives.

Written options: The enterprises pay a premium to a financial institution in exchange for the option to have it pay them if interest rates fall below an agreed-upon rate.

Default Risk

As 2008's housing crisis demonstrated, the enterprises face the risk of defaults on mortgages they own or guarantee. Although they may foreclose upon the properties securing their mortgages, they may still suffer significant losses in the event of default, particularly if housing prices decline. The enterprises protect themselves against default risk with short-term guarantee commitments.

> **Short-term guarantee commitments:** In exchange for a premium, the enterprises essentially obtain insurance from financial institutions for an agreed period (e.g., six months) against defaults. During the agreed period, the institutions commit to pay a certain amount if mortgagees default on the properties securing their assets.

Together, such derivatives help the enterprises manage risks associated with mortgage assets by partly transferring such risks to their counterparties.[40]

Treasury Draw Requests and Dividend Payments Due Under the Senior Preferred Stock Purchase Agreements

In August 2012, FHFA and Treasury agreed to a third amendment to the PSPAs that, among other things, replaced the fixed dividend rate the enterprises pay beginning in the first quarter of 2013.[41] This ended the circular practice of the enterprises drawing funds from Treasury in order to pay dividends back to Treasury.[42] Now, the enterprises' net worth (above a specified amount) will effectively be distributed to Treasury; for the first quarter of 2013, approximately $10.1 billion will be distributed.[43]

Amended PSPAs stop the enterprises from drawing money from Treasury to pay dividends to Treasury

Fannie Mae's net worth as of December 31, 2012, was $7.2 billion resulting from comprehensive net income of $18.8 billion less $11.6 billion paid to Treasury in senior preferred stock dividends during 2012. As a result, Fannie Mae did not request a draw from Treasury in 2012 to fund the PSPA.[44]

Freddie Mac's net worth as of December 31, 2012, was $8.8 billion resulting from comprehensive net income of $16 billion less $7.2 billion paid to Treasury in senior preferred stock dividends during 2012. Freddie Mac made draws from Treasury totaling $165 million in 2012. Of the $165 million, $19 million was used to eliminate a deficit in the first quarter of 2012 and $146 million eliminated a deficit in the fourth quarter of 2011.[45]

As shown in Figure 16 (see page 43), since the inception of the conservatorships in 2008, the enterprises have drawn a total of $187.5 billion and paid $65.2 billion in dividends. As of March 31, 2013, Fannie Mae's total draws from Treasury under the PSPA remain at $116.1 billion.[46]

As of March 31, 2013, Freddie Mac's total draws from Treasury under the PSPA remain at $71.4 billion.[47]

During the combined third and fourth quarters of 2012, Fannie Mae and Freddie Mac paid Treasury $5.8 billion and $3.6 billion, respectively, in dividends without any assistance under the PSPAs.[48]

For the first quarter of 2013, Fannie Mae and Freddie Mac made dividend payments of $4.2 billion and $5.8 billion, respectively, to Treasury. As of March 31, 2013, Fannie Mae and Freddie Mac have paid Treasury $35.6 billion and $29.6 billion, respectively, in dividends on the senior preferred stock.[49]

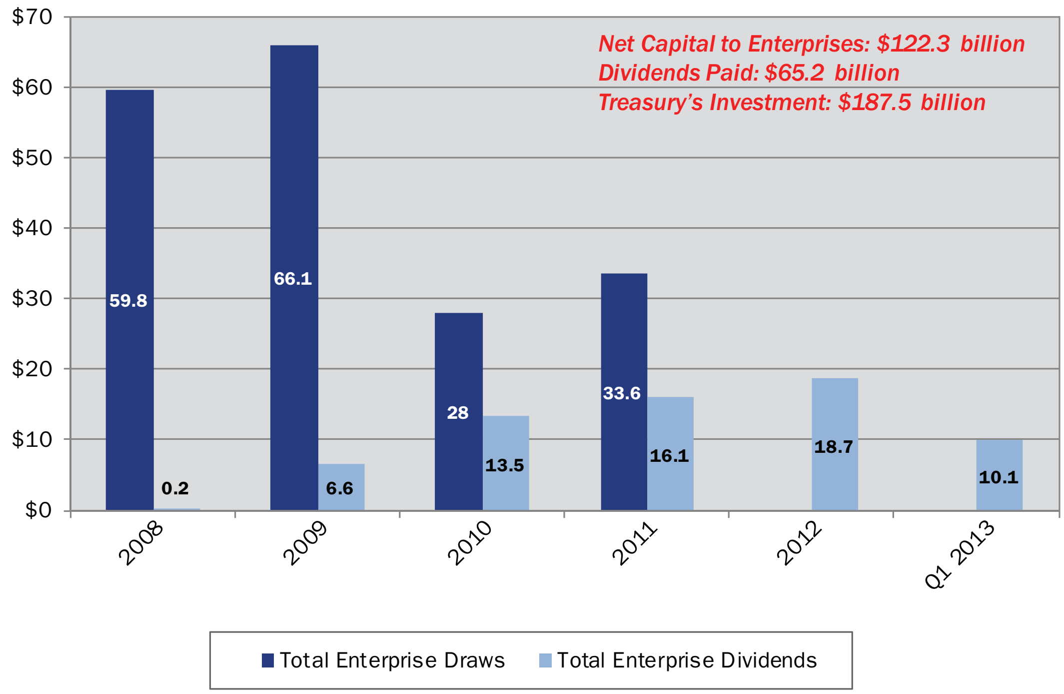
Additional Government Support

The enterprises also benefited from extraordinary government measures to support the housing market overall. Since September 2008, the Federal Reserve and Treasury have purchased more than $1.3 trillion in enterprise MBS, and the Federal Reserve has purchased an additional $135 billion of bonds issued by the enterprises.[50] The Federal Reserve became the predominant purchaser of MBS during its purchase programs, and its purchases helped to prime the nation's housing finance system.[51]

FHLBank System

The FHLBanks are GSEs, federally chartered but privately capitalized and independently managed. The 12 regional FHLBanks together with the Office of Finance, the fiscal agent of the FHLBanks, comprise the FHLBank System. All FHLBanks operate under the supervisory and regulatory framework of FHFA.[52] FHFA's stated mission with respect to the FHLBanks

Figure 16. Enterprises' Treasury Draws and Dividend Payments Due Under PSPAs ($ billions)



is to provide effective supervision, regulation, and housing mission oversight to promote the FHLBanks' safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.[53]

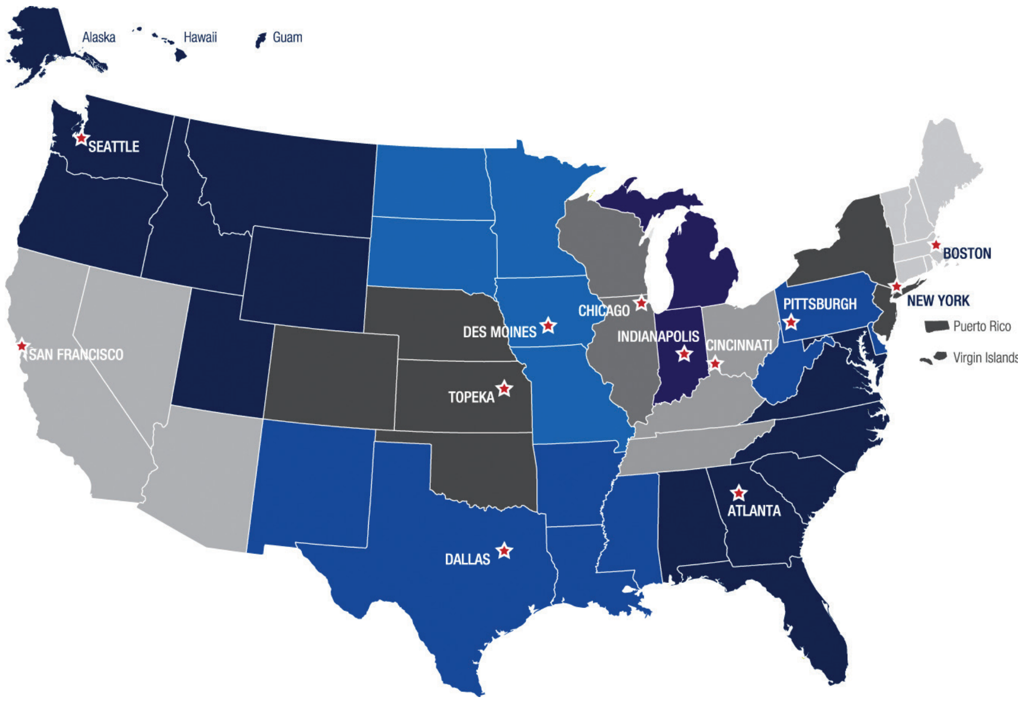
The FHLBank System was created in 1932 to improve the availability of funds for home ownership and its mission is to provide local lenders with readily available, low-cost funding to finance housing, jobs, and economic growth.[54] The 12 FHLBanks fulfill this mission by providing liquidity to their members, resulting in an increased availability of credit for residential mortgages, community investments, and other housing and community development services.[55]

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.[56] FHLBank members include financial institutions such as commercial banks, thrifts, insurance companies, and credit unions.[57] Figure 17 (see page 44) 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 its members with loans, known as advances.[58] The interest earned on advances less the interest owed on consolidated obligations is the FHLBanks' primary source of earnings.[59]

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.[60] However, like the enterprises, the FHLBank System has historically enjoyed benefits (e.g., debt costs akin to those associated with Treasury bonds) stemming

Figure 17. Regional FHLBanks



from an implicit government guarantee of its consolidated obligations.[61]

The FHLBanks' Combined Financial Performance

The regional housing markets affect the FHLBanks' demand for advances from member institutions to fund residential mortgage loans. After several years of decreased demand for advances, during 2012, the demand for advances showed some signs of regional stabilization and certain FHLBank members increased their use of advances.[62]

Additionally, as shown in Figure 18 (see right), during 2012, the FHLBanks experienced improved financial results, compared to the previous year as balances of **private-label MBS** continued to decline and credit losses on these securities subsided.[63] Gains and losses on private-label MBS are dependent on the level and direction of housing prices.[64] Accordingly, when the housing market collapsed, the FHLBanks suffered significant losses on these investments.[65] As certain markets stabilized in 2012, there was a significant reduction in the losses.[66]

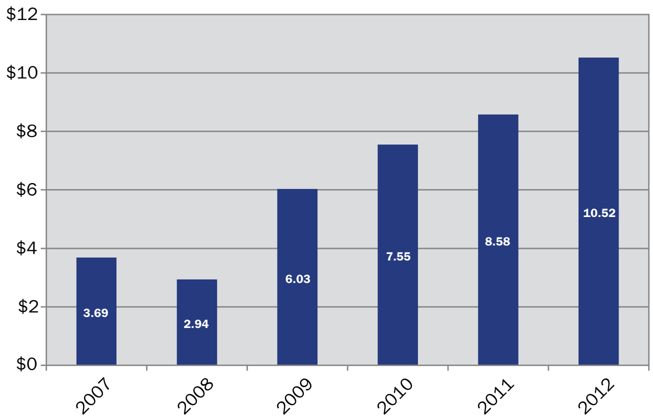
Figure 18. FHLBanks' Net Income for the Years Ended December 31, 2012 and 2011 ($ millions)

	2012	2011
Net Interest Income	$4,052	$4,171
Provision for Credit Losses	(21)	(71)
Other-than-Temporary Impairment Losses[a]	(112)	(856)
Other Income (Loss)	(48)	(246)
Total Non-interest Expense	(969)	(1,057)
Total Assessments	(296)	(348)
Net Income	**$2,606**	**$1,593**

[a] Of the other-than-temporary impairment losses, private-label MBS comprised $109 million and $849 million for the years ended December 31, 2012 and 2011, respectively.

Net income was $2.6 billion for 2012, compared to $1.6 billion for 2011.[67]

Figure 19. FHLBanks' Retained Earnings from 2007 to 2012 ($ billions)



As shown in Figure 19 (see above), the FHLBanks' retained earnings have increased every year for the last five years and now tops $10 billion as of December 31, 2012.[68] As long as the FHLBanks are profitable, retained earnings should continue to increase because of the joint capital enhancement plan provisions adopted by the FHLBanks last year to set aside 20% of their net income into a separate, restricted retained earnings account.[69]

Selected FHFA and GSE Activities

Over the last six months, there were several significant FHFA and GSE developments related to: setting new standards within the mortgage industry for appraisals, securitization, and the availability of mortgage loan information; recovering enterprise losses from past mortgage origination and servicing defects; increasing foreclosure prevention activities; continuing REO-related work; and tracking GSE performance. These developments and OIG's efforts in relation to them are summarized below.

Mortgage Industry Standards

The following developments are examples of activities focused on reducing risk and enhancing stability within the overall housing market.

In January 2013, six federal financial regulatory agencies, including FHFA, issued a final rule that establishes new appraisal requirements for higher-priced mortgage loans. The rule requires that, for higher-priced mortgage loans (i.e., loans that are secured by a consumer's home and have interest rates above certain thresholds), creditors must use a licensed or certified appraiser to prepare a written appraisal report based on a physical visit to the interior of the property. The rule also requires creditors to disclose the purpose of the appraisal and provide a free copy of any appraisal report to the mortgage applicants. The rule, which implements amendments to the Truth in Lending Act, will be effective on January 18, 2014.[70]

In November 2012, FHFA announced a partnership with the Consumer Financial Protection Bureau to create a national mortgage database—the first comprehensive repository of detailed mortgage information—that will help streamline disparate datasets and support regulators' efforts to monitor the market. Although multiple federal and state agencies—as well as private vendors—collect and maintain mortgage information, there is no comprehensive national-scale database with all this information. The national mortgage database is intended to include information spanning the life of a mortgage loan—from origination through servicing—as well as a variety of borrower characteristics. Data will be updated on a monthly basis, fulfilling an FHFA requirement under HERA to conduct a monthly mortgage market survey.[71]

In October 2012, FHFA released a white paper for public input on a proposed new infrastructure for the secondary mortgage market—a framework for a common securitization platform (CSP) and a model pooling and servicing agreement. The paper looks to identify the core components of mortgage securitization that will be required in the housing finance system moving forward. Identifying these core components is critical, as they are linked to two cornerstone operational features: a CSP to process payments and perform other multiple-issuer functions and a contractual framework supporting the new infrastructure. Developing a new infrastructure for the secondary mortgage market is one of the key goals of FHFA's *A Strategic Plan for Enterprise Conservatorships* and builds on other initiatives already underway to align and improve the business practices of the enterprises.[72]

On March 4, 2013, FHFA released the 2013 Conservatorship Scorecard for the enterprises. While the scorecard details specific priorities for the enterprises in 2013, of particular note is the creation of a new securitization infrastructure, including a CSP. A new business entity will be established between the enterprises that will, among other things, own and govern the structure of the CSP; develop the design, scope, and functional requirements for the CSP's modules; and develop the initial business operational process model.[73] Although this new entity will initially be owned and funded by the enterprises, it will ultimately be headed by a CEO and Chairman of the Board independent from the enterprises and will have a location that is physically separate from the enterprises.[74]

Recovery of Enterprise Losses

On January 7, 2013, FHFA issued a statement saying it has approved an $11.6 billion agreement between Fannie Mae and Bank of America to resolve claims related to mortgages sold to Fannie Mae between 2000 and 2008. These claims include repurchase demands involving approximately 30,000 loans sold by Bank of America or its affiliates. The agreement also provided for the transfer of servicing rights for roughly 1 million loans from Bank of America to specialty servicers. This transfer is structured to benefit borrowers and reduce future credit losses to Fannie Mae. The agreement provides Fannie Mae with a recovery of losses from origination and servicing defects that could have been absorbed by taxpayers in the absence of a resolution of these matters.[75]

On June 27, 2012, in response to OIG's *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, September 18, 2012), the agency instituted, and transmitted to the enterprises, a policy governing substantial enterprise settlement agreements. The policy details the roles and responsibilities of management at the enterprises, the agency, the enterprises' Boards of Directors, and any third-party reviewers. The purpose of the settlement policy is to ensure that all relevant parties and experts are given sufficient opportunities to express their views in order to enable the conservator to make a well-informed final decision. OIG is reviewing whether the January 2013 agreement was approved in compliance with applicable standards.

Foreclosure Prevention

FHFA has shown increased involvement in the prevention of foreclosures. In January 2013, FHFA's Acting Director and HUD's Secretary announced that FHA and the enterprises will extend foreclosure protections for homeowners whose properties were damaged or destroyed as a result of Hurricane Sandy. The 90-day extension applies to homeowners with properties in states where the President issued major disaster declarations following Hurricane Sandy. The extension applies to the initiation of foreclosures as well as foreclosures already in process. FHA is also suspending evictions from properties secured by FHA mortgages in the affected areas through April 30, 2013.[76]

Additionally, in its third quarter 2012 *Foreclosure Prevention Report*, FHFA detailed actions that have helped more than 2.1 million borrowers stay in their homes and indicated that short sales and other measures to avoid foreclosure are on the rise. According to the report, the enterprises completed more than 134,000 foreclosure prevention actions in the third quarter of 2012, bringing the total number of foreclosure prevention actions to more than 2.5 million since the start of conservatorship, with nearly 1.3 million of those actions being permanent loan modifications.[77]

In a recent report, *FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned* (AUD-2012-005, July 19, 2012), OIG emphasized the importance of foreclosure alternatives and prevention as the enterprises' shadow inventory (i.e., a backlog of defaulted loans that is many times larger than their current REO inventory) looms.

REO Pilot Initiative

FHFA's *A Strategic Plan for Enterprise Conservatorships* called for the implementation of the pilot REO bulk sales initiative—single sales of multiple properties, pursuant to an agreement to lease them to tenants for an agreed term—and other creative strategies for placing foreclosed homes back into the marketplace to reduce losses. Under Fannie Mae's REO pilot initiative, Pacifica Companies LLC purchased 699 Fannie Mae properties in Florida, The Cogsville Group LLC purchased 94 properties in Chicago, and Colony Capital LLC purchased 970 properties in California, Arizona, and Nevada. This initiative targets the hardest-hit metropolitan areas: Atlanta, Chicago, Las Vegas, Los Angeles, Phoenix, and parts of Florida.[78]

OIG has continued to track the performance of the REO initiative since issuing its July 2012 audit entitled *FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned* (AUD-2012-005, July 19, 2012).

FHFA and GSE Performance and Accountability

In order to assess FHFA's and the GSEs' performance, OIG reviews and analyzes FHFA's strategic goals and accountability reports. For this period, FHFA released the *2012 Performance and Accountability Report*, its strategic plan for 2013-2017, and updated projections of potential draws for the enterprises. The key results of these reports are highlighted below.

FHFA's *2012 Performance and Accountability Report* discusses the agency's accomplishments, challenges, and ongoing initiatives. Key accomplishments for the fiscal year included the following:

- Providing results and conclusions of the enterprises' and FHLBanks' 2011 examinations.
- Producing *A Strategic Plan for Enterprise Conservatorships*, which provides a road map for work FHFA and the enterprises will undertake in the next phase of conservatorship.
- Developing a new strategic plan for 2013-2017, which incorporates goals included in *A Strategic Plan for Enterprise Conservatorships*.
- Establishing a new Office of Strategic Initiatives to coordinate and oversee the activities associated with the conservatorship strategic plan.
- Issuing a white paper, *Building a New Infrastructure for the Secondary Mortgage Market*, which proposes a CSP to replace the enterprises' current proprietary systems.
- Appointing new CEOs for the enterprises and increasing and realigning FHFA staff supervising the companies.
- Working with the enterprises to complete foreclosure prevention initiatives and enhance HARP to increase refinancings.
- Completing the first REO pilot initiative to dispose of approximately 1,772 Fannie Mae single-family foreclosed properties in areas hardest hit by the housing downturn.
- Terminating a cease-and-desist order on the Chicago FHLBank due to improvements in the bank's financial and capital positions, and deeming the Seattle FHLBank "adequately capitalized" due to its strengthened capital position.[79]

FHFA's strategic plan for 2013-2017 sets forth the agency's initiatives to improve current mortgage processes and sets the stage for recovery in the housing finance system. The four strategic goals outlined in the plan are:

- safe and sound housing GSEs;
- stability, liquidity, and access in housing finance;
- preserving and conserving enterprise assets; and
- preparing for the future of housing finance in the United States.

The updated plan also incorporates key components of FHFA's *A Strategic Plan for Enterprise Conservatorships* released in February 2012.[80] Specifically, the updated plan reiterates the three strategic goals outlined in the February document—build, contract, and maintain. It discusses FHFA's plan to build a new infrastructure for the secondary mortgage market, its efforts to contract the enterprises' presence in the market by increasing the role of private sources of capital, and its plans to continue to recover and minimize taxpayer losses.[81]

In October 2012, FHFA released updated projections of the financial performance of the enterprises, including potential draws under the PSPAs. These updated projections show reduced cumulative Treasury draws. Specifically, FHFA now estimates that the enterprises will draw between $191 billion and $209 billion by 2015. The key drivers of the improved results include an overall reduction in actual and projected credit-related expenses as well as changes in the dividend structure contained in the PSPAs, which eliminate the need to borrow from Treasury to pay dividends.[82] During this reporting period, OIG issued an evaluation of the PSPA amendments (see page 9) that, among other things, analyzes the potential impact of the changes to the dividend framework.

Section 3: Enterprise Reform

Introduction

This section offers a framework for understanding proposed reforms of the enterprises in relation to what contributed to their financial difficulties following the 2004-2007 "housing boom" and what they and FHFA have done to fix their problems while they wait for a legislative decision concerning their future role in the housing finance system.

The enterprises continue to dominate the secondary mortgage market where loans are purchased; bundled together into MBS; and then bought, sold, or held as investments. Indeed, since September 2008, the enterprises have owned or guaranteed three out of every four mortgages in the United States.[83]

Since 2008, the enterprises have owned or guaranteed three of four U.S. mortgages

Historically, the enterprises were intended to help stabilize the secondary market and facilitate the flow of mortgage credit by purchasing mortgages from lenders, which, in turn, would be freed up to make more mortgage loans.[84] As the housing boom collapsed, however, they became insolvent, resulting in their entering conservatorships under FHFA's supervision in 2008. Since then, the agency has worked to conserve and preserve their assets and ensure that they follow prudent business practices.

Initially, FHFA understood the conservatorships to be more of a temporary "time out" to stabilize the enterprises while, in the Acting Director's words, "Congress and the Administration could figure out how best to address future reforms."[85] But, five years later, the enterprises remain in conservatorship, and their exact role—and that of the larger housing finance system—awaits legislative resolution.

Over time, as it became more obvious that the conservatorships would not be temporary, FHFA amended its strategic plan to better describe its additional conservatorship responsibilities. In its strategic plan, FHFA advises that its objective is (and has been) to guide the enterprises in a way that accomplishes what has generally been agreed to—restoring their financial fitness and reducing their market footprint—while not precluding any of the major enterprise reform proposals, which range from privatizing to eliminating the enterprises.

Below, we briefly summarize the enterprises' history, what caused their liquidity problems, and FHFA's strategy for helping to restore them while leaving open legislative options for reforming them. Against this backdrop, we highlight the major reform proposals on the table and the major stakeholders who offered them. Our goal is not to promote a particular policy but to provide useful information for the coming debate.

Falling Into Crisis

The housing GSEs have a long history. Understanding their role over the years is essential.

The Great Depression of the 1930s Leads to Federal Intervention in the Housing Market

Before the 1930s, housing finance was exclusively the realm of the private sector. Typical loan conditions—up to 50% down payments, terms of 10 years or less, and large balloon payments—put homeownership out of reach for many Americans.[86] Without a nationwide housing finance market, the availability and pricing of mortgage loans also varied widely across the country.[87]

When the Great Depression of the 1930s hit, the effects on housing were disastrous. Unemployment climbed to over 23% in 1932. Up to a quarter of all mortgages were in default by 1933.[88] And due to failures and mergers, half as many commercial banks were operating in 1933 as had been in 1921.[89] As the country approached this economic nadir, the federal government created the FHLBank System in 1932 to serve as a reserve credit system to support housing finance and provide relief to troubled homeowners and lenders.[90] Several other interventions followed.

Creation of Fannie Mae and Freddie Mac

Fannie Mae was established in 1938 as a government-held association. Its mandate was to act as a secondary mortgage market facility to purchase, hold, and sell loans insured by FHA. By purchasing FHA-insured loans from private lenders, Fannie Mae created liquidity in the mortgage market, providing lenders with cash to fund new home loans.[91]

Over the years that followed, Congress altered Fannie Mae's form and function in response to shifts in the country's fiscal and economic situations. In 1954, the Housing Act reorganized Fannie Mae as a mixed-ownership corporation with the federal government and Fannie Mae's lenders as eligible shareholders.[92] The Housing Act required Fannie Mae to: improve the availability of capital for home mortgage financing by providing liquidity for mortgage investments and support the mortgage market if there was a threat to the economy's stability. In 1968, the Housing and Urban Development Act reorganized Fannie Mae as a private, shareholder-owned company with government sponsorship. It also gave HUD regulatory authority over Fannie Mae and required that a reasonable portion of its mortgage purchases serve low- and moderate-income families.[93]

The Depression era reforms and the innovations that they fostered (e.g., the 30-year fixed rate and 80% LTV mortgage) were wildly successful from a homeownership perspective. From 1940 to 1970, homeownership rates rose from about 44% to 63%.[94] But Fannie Mae had also become a monopoly.

With the Emergency Home Finance Act of 1970, Congress sought to create a competitor in an expanded secondary mortgage market while further increasing homeownership. Freddie Mac was created in order to help thrift institutions manage the risk associated with interest rate fluctuations.[95]

Thrifts are depository institutions, primarily for consumer savings, such as savings banks and home loan associations. Often, thrifts funded mortgages—long-term obligations—with short-term debts (e.g., savings deposits). This presents a risk when the interest rates of the short-term debts exceed the long-term obligations.[96]

Freddie Mac thus was initially tasked with purchasing long-term mortgages from thrifts, which increased their mortgage funding capacity and reduced their interest rate risk. In 1989, in the aftermath of the savings and loan crisis of the 1980s that resulted in billions of dollars of losses, Freddie Mac was reorganized as a publicly traded shareholder-owned corporation.[97]

In 1992, given ongoing concerns about oversight of the enterprises, Congress passed the Federal Housing

Enterprises Financial Safety and Soundness Act. The law revised the regulatory structure of enterprise oversight and clarified their roles in housing finance by:

- reemphasizing the enterprises' obligations to support mortgage finance through secondary market activities, especially during periods of economic stress;
- establishing the Office of Federal Housing Enterprise Oversight as an independent agency within HUD responsible for monitoring the enterprises' safety and soundness;
- requiring the enterprises to meet specific annual goals for the purchase of mortgages serving low- and moderate-income families, special affordable housing for families, and housing located in central city, rural, and underserved areas; and
- designating HUD as the regulatory authority of the enterprises, and specifying procedures for reviewing and approving new enterprise mortgage program proposals (i.e., the HUD Secretary had final approval of any new program proposal).[98]

Recent Housing Crisis Leads to Conservatorship

From 2001 to 2006, the U.S. housing market saw a massive rise in real property valuation. As single-family home prices increased an average of 12% per year, potential homebuyers and financial institutions alike fought to participate in the booming market.[99] As the housing boom proceeded, lenders increasingly approved higher-risk, high-LTV (i.e., the ratio of the loan value to the value of the home securing it) mortgages for borrowers who had little to nothing for down payments, unverified incomes, and high debt ratios. These mortgages were commonly referred to as subprime. The credit risks associated with such mortgages spread throughout the financial system as the mortgages were bundled into publicly traded MBS issued by the enterprises (known as agency MBS) and private companies (known as private-label MBS).[100]

The dominant players in the secondary mortgage market prior to the housing boom, Fannie Mae and Freddie Mac, strove to maintain their market share during the housing boom. In 2001, the enterprises began buying—for their own investment portfolios—private-label MBS, many of which were collateralized by subprime mortgages.[101] According to GAO, the enterprises' purchases of private-label MBS increased rapidly as a percentage of their retained mortgage portfolios from 2003 through 2006.[102] These purchases—and parallel increases in their guarantee businesses—helped Fannie Mae's assets and guaranteed mortgages grow from $1.3 trillion in 2000 to $3.1 trillion in 2008, while Freddie Mac's increased from $1 trillion to $2.2 trillion.[103]

As their businesses multiplied, the enterprises expanded the scope of loans they would agree to purchase and guarantee. Traditionally, the enterprises had confined their business to lower-risk prime loans. For example, Fannie Mae's *Selling Guide* requires down payments of at least 5% (and mortgage insurance for mortgages covering more than 80% LTV) and debt-to-income ratios of 36% in most cases.[104]

But during the housing boom, Fannie Mae issued unprecedented numbers of variances, or exceptions, from its underwriting guidelines that permitted it to purchase, among other things, zero down payment mortgages made to buyers with low credit scores and unverified income and assets.[105]

Beginning in 2006, home prices started declining precipitously and borrowers began defaulting, and the enterprises owned or guaranteed mortgages worth more than $5 trillion—nearly half of the U.S. residential mortgage market.[106] In 2007 and 2008, the enterprises incurred substantial credit losses due to borrowers not repaying their mortgages and declines in the values of homes securing mortgages that they owned or guaranteed or that collateralized the private-label MBS that they had purchased.[107] The enterprises lost billions of dollars on their multi-trillion dollar MBS guarantee obligations and investment portfolios.[108]

In early to mid-2008, investor confidence in the enterprises also deteriorated. This led to a sharp increase in the enterprises' borrowing costs and drastic declines in shareholder **equity** as measured by the prices of their publicly traded common stock.[109]

In response to the enterprises' deteriorating financial condition and concerns about the stability of financial markets, Congress enacted HERA on July 30, 2008.[110] HERA established FHFA as the regulator of the enterprises and the FHLBank System and set forth its regulatory responsibilities and supervisory powers, which include expanded authority to place the enterprises in conservatorship. HERA also authorized Treasury to support the enterprises financially.[111]

Six weeks later, on September 6, 2008, the enterprises entered into conservatorships overseen by FHFA due to the significant deterioration in their financial conditions.[112] Along with the conservatorships came substantial financial assistance for the enterprises: to date, Treasury has invested $187.5 billion in the enterprises and the Federal Reserve has purchased more than $1.1 trillion of agency MBS.[113]

Enterprises in Conservatorship

Initially, FHFA's conservatorship was regarded as a temporary "time out"—a chance to stabilize the enterprises and housing market while legislative reform was debated and decided. During this time, the agency took steps to stabilize the enterprises by focusing on mitigating their losses, ensuring families could get mortgage loans, and helping borrowers avoid foreclosure.[114] Examples of the agency's stabilization efforts, some of which were the focus of OIG audits or evaluations, are summarized below. Additionally, these efforts ensure that the enterprises are available to implement whatever housing finance system reform is legislated.

Over time, as it became more obvious that the conservatorships would not be temporary, FHFA began to prepare the enterprises for change. FHFA has implemented a variety of programmatic initiatives designed to facilitate any reforms that are ultimately selected.

Working to Stabilize the Enterprises

Remediating Losses

In the aftermath of the housing bust, it became apparent that mortgage seller/servicers and financial institutions had engaged in behavior ranging from questionable to illegal in order to profit from mortgages and private-label MBS sold to the enterprises. FHFA has made efforts to remediate those problems.

Lawsuits Against 17 Financial Institutions

The enterprises did not have access to the mortgages underlying the private-label MBS they so heavily invested in, leaving them to rely on financial institutions to accurately describe the mortgages backing the securities in marketing and sales materials, as required by securities laws. Under these laws, financial institutions must accurately describe the mortgages that back the securities being sold.[115]

During the summer of 2011, FHFA filed lawsuits against 17 financial institutions,[116] alleging violations of federal and state securities laws in connection with the sale of private-label MBS to the enterprises.[117] FHFA is pursuing claims regarding the inadequate disclosures filed in securities offering documents.[118] FHFA alleges in its complaints that the mortgage collateral securing the private-label MBS had materially different and higher risk characteristics than described in the offering materials.[119]

The complaints seek billions of dollars in damages.[120] In addition, FHFA seeks to recover losses for negligent misrepresentations.[121] Any recovered funds resulting from these efforts may ultimately reduce taxpayers' losses from the enterprises' financial difficulties.[122]

Bank of America Buyback Settlement

In early 2008, Bank of America purchased Countrywide, which was on the verge of failure. Countrywide was one of the most aggressive originators of nontraditional mortgages (e.g., Alt-A and no down payment), and it sold a large number of these mortgages to the enterprises. In late December 2010, FHFA approved two agreements settling various repurchase claims between the enterprises and Bank of America, totaling $2.87 billion ($1.35 billion for Freddie Mac and $1.52 billion for Fannie Mae).

As a condition of their purchases of mortgages, the enterprises require sellers to represent and warrant that their mortgages comply with the enterprises' underwriting and eligibility standards. If mortgages are later found not to comply, then the enterprises can require that the sellers repurchase them. Freddie Mac's settlement resolved most past, present, and future repurchase issues associated with 787,000 loans sold to it by Countrywide. In contrast, Fannie Mae's settlement with Bank of America covered only past and present claims, not future ones.[123]

On January 7, 2013, FHFA approved a supplemental agreement between Fannie Mae and Bank of America worth $11 billion to resolve present and future claims related to mortgages sold to Fannie Mae between 2000 and 2008. In addition, FHFA approved the transfer of servicing rights for roughly 1 million loans from Bank of America to specialty servicers. This transfer of servicing rights benefits borrowers and reduces future credit losses for Fannie Mae. The agreements provide Fannie Mae with a recovery of losses from origination and servicing defects that taxpayers might have had to absorb without a resolution to these matters.[124]

The following minitutorial (see page 55) details OIG's reports on the enterprises' settlements and transactions with Bank of America.

Bank of America Settlements

OIG has issued reports on FHFA's oversight of Freddie Mac's settlement with Bank of America and Fannie Mae's transfer of mortgage servicing rights (MSR) from Bank of America. Regarding Freddie Mac's settlement, in *Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America* (EVL-2011-006, September 27, 2011), we raised concerns about the methodology that Freddie Mac used to determine the number of defective loans purchased from Bank of America that were eligible for repurchase. We determined that Freddie Mac's methodology underestimated the number of defective loans that should have been covered by the settlement because it tended to exclude from its review defective loans that were originated more than two years prior to default. Thus, for loans originated in 2006 alone, nearly 100,000 loans were not reviewed for possible repurchase claims.

In a follow-up report, *Follow-up on Freddie Mac's Loan Repurchase Process* (EVL-2012-007, September 13, 2012), we found that FHFA and Freddie Mac had acted on the concerns raised in the initial report by adopting a more expansive loan review process. Specifically, Freddie Mac changed its policy to review for potential repurchase claims significantly larger numbers of loans that defaulted more than two years after origination. We determined that, as a result of its new loan review process, Freddie Mac will realize between $2.2 billion and $3.4 billion in additional recoveries.

Regarding MSR, in July 2011, Fannie Mae transferred MSR for 384,000 mortgage loans and paid Bank of America a $421 million transfer fee. The deal received media attention, and members of Congress asked OIG to investigate the transaction. In *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, September 18, 2012), we concluded the transaction was only the latest in a series of transactions under the High Touch Servicing Program, the concept behind which we deemed to be sound, calling it "a fundamentally promising initiative with the potential to reduce Fannie Mae's—and, by extension, the taxpayers'—losses on mortgage guarantees." However, we found that FHFA could improve its oversight of the program and recommended that the agency consider revising its delegation of authorities to require its preapproval of "unusual, high-cost, new initiatives, like the High Touch Servicing Program."

Lehman Brothers Holdings Inc. Bankruptcy Claim

On September 15, 2008, Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection, which allows a company to reorganize its business. Many of Lehman's U.S. subsidiaries and affiliates soon did the same (collectively, the Lehman Entities).[125]

When the bankruptcies were filed, Freddie Mac had multiple ongoing business relationships with the Lehman Entities. These business relationships gave rise to several economic claims.[126]

On September 22, 2009, FHFA filed proofs of claim in the Lehman bankruptcies.[127] On December 6, 2011, the bankruptcy court confirmed Lehman's plan for reorganization. Among other things, the plan sets aside $1.2 billion for Freddie Mac's priority claim relating to losses incurred on short-term unsecured loans made to Lehman. In the event that Freddie Mac's claim is not accorded priority status, it will be treated as a senior unsecured claim under the plan and will receive an estimated distribution of 21% (or approximately $250 million) over the next three years.[128]

Strengthening Underwriting Oversight

As mentioned above, Fannie Mae issued a substantial number of variances to traditional underwriting standards to purchase high-risk mortgages, thereby effectively loosening these standards. However, FHFA's efforts to address these practices early in its conservatorship were limited, as OIG reported in 2012.[129]

As the housing market collapsed, Fannie Mae drastically reduced the number of variances it had granted. As of September 2011, the enterprise had reduced outstanding variances from approximately 11,000 for 800 lenders to 638 variances for 188 lenders. Many of the canceled variances related to higher-risk features, such as loans made with unverified income or assets (i.e., Alt-A mortgages).[130]

Preventing Further Losses

Fannie Mae began the High Touch Servicing Program in 2009 when the enterprise discovered that nearly 70% of its losses were the result of nonperforming mortgages held in a particular mortgage portfolio with a principal balance of $300-$400 billion.[131] Fannie Mae decided to transfer to a specialty servicer MSR for that portfolio to reduce further losses.[132] Unlike the typical loan servicer, specialty servicers make significantly more contact with at-risk borrowers, for instance, informing them of the consequences of defaulting and describing ways of avoiding foreclosure. High touch servicing, therefore, has the potential to reduce rates of default and the accompanying foreclosure losses.

Between 2009 and 2011, Fannie Mae invested $1.5 billion in the program in order to transfer 1.1 million mortgages to specialty servicers. As part of the program, Fannie Mae paid transfer fees to the original servicers above the contractual fee.[133] The justification for paying this premium is an estimated savings of 20% on credit losses that Fannie Mae estimates that specialty servicers can generate.[134]

Preventing Foreclosure

From the start of the conservatorships through December 2011, the enterprises completed 2.1 million foreclosure prevention transactions, including permanent loan modifications and other forms of assistance.[135] About 1.8 million of these actions—including nearly 1.1 million permanent loan modifications—allowed borrowers to retain homeownership.[136] Many borrowers had their monthly payments reduced by more than 30%.[137]

FHFA's signature foreclosure prevention initiative is HARP. Introduced in 2009 to help borrowers who were unable to refinance due to a decline in their home's value,[138] the program's goal was to refinance mortgage loans held or guaranteed by the enterprises at a lower interest rate and to a shorter term that would more quickly build equity and get the borrower out of an "underwater" situation.[139]

To offer the benefits of HARP to more borrowers, FHFA changed the program in 2011 (referred to as HARP 2.0). Highlighted changes include the removal of certain risk-based fees, LTV ceilings, and particular property appraisals. Certain representations and warranties procedures were also waived.[140] In addition to reducing foreclosure risk, these changes reduce the enterprises' credit risk and bring greater stability to the mortgage markets.[141] The program's end date has been extended to December 31, 2013.[142]

Preparing for Change

In February 2012, FHFA recognized that there was "no near-term resolution in sight" for the enterprises and released a five-year strategic plan for the enterprises that would "support any outcome of the leading legislative proposals." The plan focuses on extending actions that FHFA has already begun or implemented to meet its mandates of putting the enterprises on sound financial footing and reorganizing, rehabilitating, or winding up their affairs.

Pointedly subtitled *The Next Chapter in a Story that Needs an Ending*, FHFA's strategic plan for the conservatorships is part of its more general aim to lay the groundwork for housing finance reform. Specifically, the agency's goals for its conservatorships are to:

- build a new infrastructure for the secondary mortgage market;
- contract the enterprises' market presence and shrink them; and
- maintain its attempts to prevent foreclosures and to keep money for mortgage loans available.[143]

A few months later, in October 2012, the agency's general objective to prepare for housing reform was made explicit when FHFA released its own strategic plan titled *Preparing a Foundation for a More Efficient and Effective Housing Finance System*.[144] The agency's overarching strategy incorporates key components of its more specific plan for the enterprises under conservatorships in order to "set the stage for recovery and an improved system of housing finance."[145] FHFA sees its conservatorship work of contracting the enterprises and building a new mortgage market infrastructure to be part of its more general goal of preparing for the future of housing finance.[146]

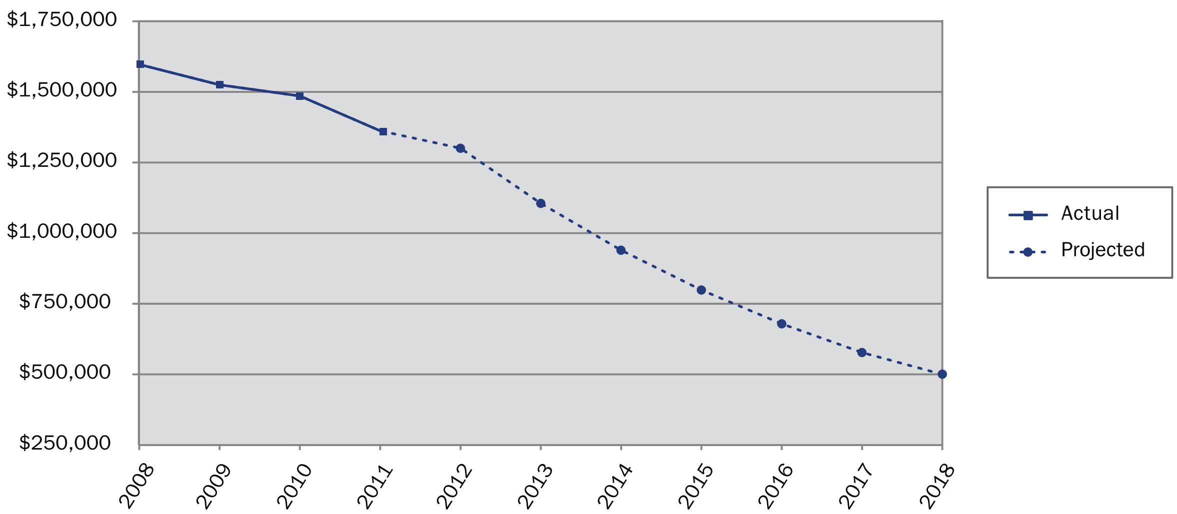
Below, we briefly summarize what FHFA has done and plans to do under its strategic goal to set the enterprises on a path toward reform.

Additionally, FHFA has made it a goal to shrink the enterprises under its conservatorship; the agency sees this as consistent with many of the reform proposals, which generally envision their reduced role and an increased role for the private sector. For example, FHFA worked with Treasury to amend the PSPAs—the investment mechanisms used to rescue the enterprises from insolvency. Now, every cent of enterprise net worth (above a specified amount) must go back to the taxpayers (who have invested $187.5 billion in their operations to date), and the enterprises must reduce their investments portfolios by 15% each year.[147]

Senior Preferred Stock Purchase Agreement Amendments

HERA authorized Treasury to buy obligations and other securities from the enterprises.[148] On September 7, 2008, Treasury established individual PSPAs with the enterprises through FHFA. The PSPAs legally bind the U.S. government, through Treasury, to provide the capital necessary to maintain the enterprises' net worth at or about zero (subject to a cap), thereby, helping to reassure investors concerning the enterprises' debt and their guaranteed MBS.[149] Treasury's purchases were intended to

Figure 20. Actual and Projected Year-end Values of Total Retained Portfolios Under the Terms of the PSPAs ($ millions)



prevent the enterprises' insolvency and to improve investor confidence in the enterprises' ability to meet their obligations and provide the mortgage market with liquidity.[150]

On May 6, 2009, Treasury amended the initial agreements by doubling the funding commitment to each enterprise, increasing the maximum size of each enterprise's retained mortgage portfolio, and allowing each enterprise to increase its indebtedness (i.e., the amount of money it owed). On December 24, 2009, Treasury and FHFA agreed to further amendments to the PSPAs, which included additional financial support for each enterprise through the end of 2012 and changes to the limits on their retained mortgage portfolios.[151]

On August 17, 2012, Treasury and FHFA again amended the PSPAs. The most notable change was the replacement of the fixed 10% dividend payment with a quarterly sweep of the enterprises' net worth above a specified amount.[152] This was intended to ensure stability, fully capture financial benefits for taxpayers, and eliminate the need for the enterprises to continue borrowing from Treasury to pay dividends.[153] According to FHFA's Acting Director, "As Fannie Mae and Freddie Mac shrink, the continued payment of a fixed dividend could have called into question the adequacy of the financial commitment contained in the PSPAs."[154]

The August 2012 amendments to the PSPAs also require a quicker reduction of their investment portfolios. The annual reduction rate is now 15% instead of 10% (the rate required by the previous iterations of the PSPAs).[155] Such a rate of reduction is estimated to enable the enterprises to reach a maximum retained portfolio of $250 billion each (or $500 billion combined) by 2018. Figure 20 (see above) shows the actual and projected declines in the enterprises' retained mortgage portfolios pursuant to the revised PSPAs.

The faster reduction in the retained mortgage portfolio will further reduce risk exposure and simplify the operations of the enterprises.[156] FHFA expects the amendments to help wind down the enterprises' investment portfolios more quickly and make sure that their earnings benefit taxpayers; support the flow of mortgage credit during a transition to a reformed housing finance market; and provide greater certainty regarding the financial strength of the enterprises.[157]

FHFA also plans to simplify and shrink the enterprises' operations to reduce their dominance in the market across all three of their lines of business—single-family, multifamily, and capital markets (issuing debt securities).[158] Among other means, FHFA is working to achieve this by increasing guarantee fee pricing.[159]

Increasing Guarantee Fees

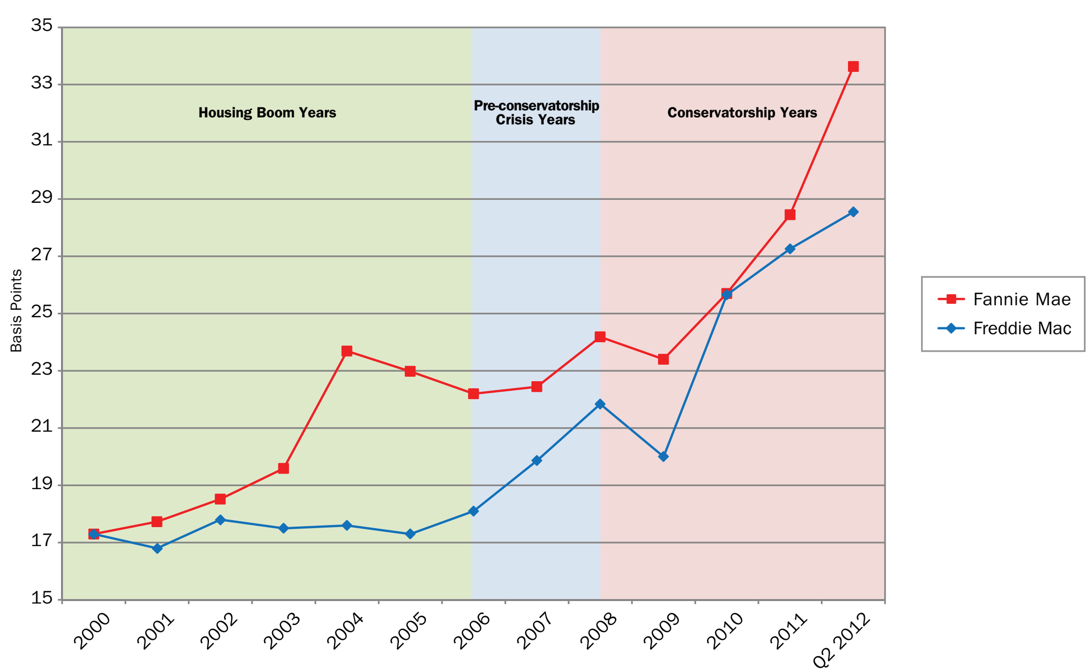
Like insurance companies, each enterprise charges a premium in the form of a guarantee fee for its guarantee of principal and interest payments on the loans covered by its MBS. This guarantee fee is intended to offset expected credit losses from borrower defaults. Lender guarantee fee payments are generally ongoing monthly payments and frequently include an up-front payment at the time of purchase. A lender typically passes the cost of the guarantee fee on to the borrower.[160]

The enterprises consider many factors in determining the rates of guarantee fees, including the estimated cost of guaranteeing specific mortgages, competitive conditions in the market for bearing mortgage credit risk, the relative pricing of each enterprise's MBS, the enterprises' public mission, and targeted returns on capital.[161]

In September 2011, FHFA announced its intention to continue on a path of gradual price increases based on risk and the cost of capital.[162] The Temporary Payroll Tax Cut Continuation Act of 2011 also directed FHFA to raise the average guarantee fees charged in 2012 by at least 10 basis points greater than the average guarantee fees charged in 2011 (1 basis point is equivalent to 1/100 of 1 percentage point, in this example, the 10 basis points equals 0.10%).[163]

On August 31, 2012, FHFA announced that the enterprises will again raise guarantee fees on single-family mortgages by an average of 10 basis points.[164] This increase will increase borrowing costs and will make the guarantee fees for lenders delivering large volumes of loans more uniform with fees for lenders delivering smaller volumes. According to FHFA, this increase is also intended to reduce the subsidization of higher-risk mortgages by lower-risk ones. It will do this by applying larger increases on guarantee fees for loans with maturities longer than 15 years.[165] Figure 21 (see below) represents the increasing trend in guarantee fees from 2000 to the present.

Figure 21. Enterprises' Single-Family Guarantee Fee Pricing Over Time



FHFA has stated that raising guarantee fees also may lead to greater private-sector participation in the mortgage market by potentially bringing the enterprises' fees more in line with what private entities—without government support—would be expected to charge.[166]

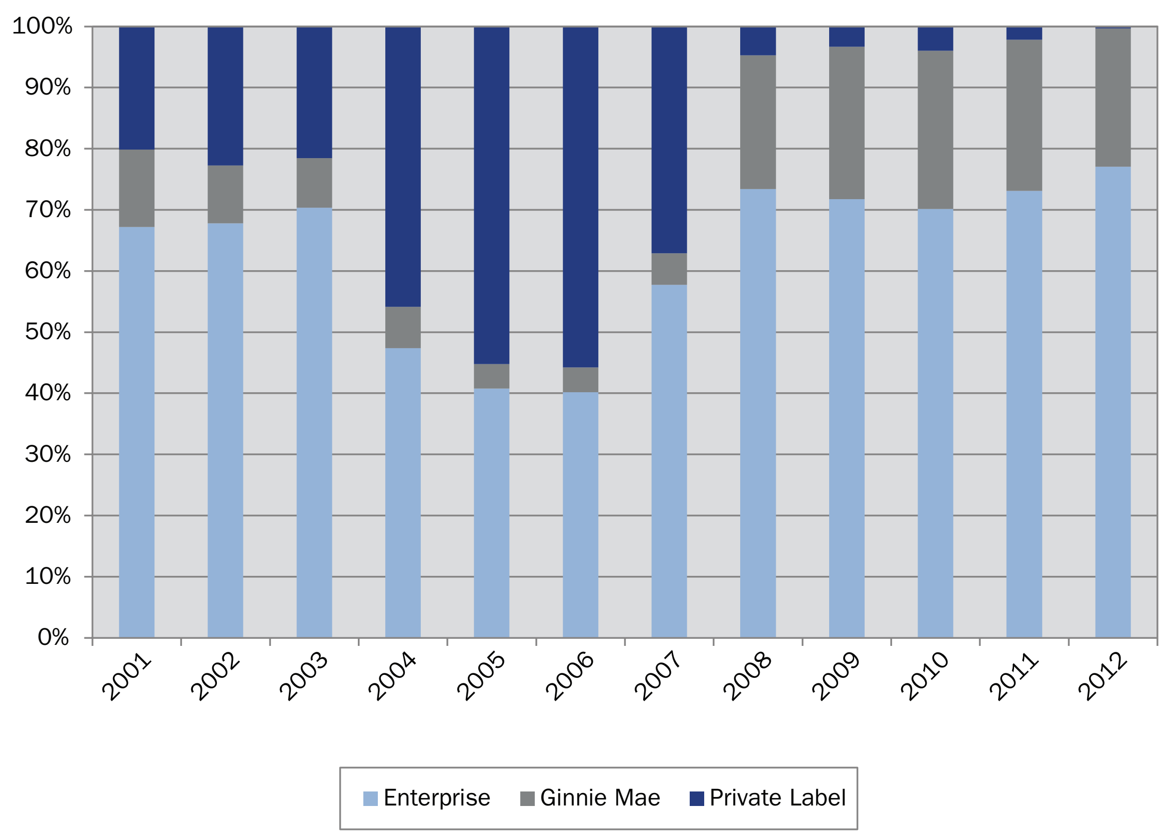
However, despite FHFA's steps to shrink the enterprises' footprint in the secondary mortgage market, there is currently no private-sector entity that can fill their shoes; new mortgages alone account for $100 billion in capital per month.[167] And, as shown in Figure 22 (see below), the enterprises have once again assumed the dominant position in the MBS market since 2008; indeed, Fannie Mae, Freddie Mac, and Ginnie Mae issued approximately 100% of MBS in 2012.

In recognition that the enterprises' dominant position in the market may change, FHFA intends to create a new market infrastructure that, among other things, may reduce obstacles to private participation.[168] For example, FHFA has been standardizing business practices across both enterprises and is exploring the implementation of a new securitization platform (the mechanism that bundles mortgages into securities that are sold to investors). In addition, FHFA is examining mortgage servicing reform across multiple areas and improved loan-level data and document storage. The agency plans for all these elements to comprise an open, accessible structure to encourage investor confidence and entry into the market.[169]

Securitization

On March 4, 2013, FHFA announced that a new business entity will be established between the enterprises.[170] FHFA believes a new securitization infrastructure, separate from the two enterprises, is important

Figure 22. Enterprises' Dominance in the MBS Market



to support a new secondary mortgage market.

> ***According to FHFA, a new mortgage market needs new securitization infrastructure***

According to FHFA, the new entity will function as a market utility and is not intended to rebuild the infrastructures of the enterprises. Initially, it will be owned and funded by the enterprises, but its functions will be designed to operate as an independent infrastructure—operable across several platforms and physically located separate from the enterprises. FHFA states that the combination of these attributes will allow access and input from industry participants. With the overarching goal to create something of value for the future mortgage market, FHFA believes that the design is flexible so it can meet the direction and goals policymakers set for housing finance reform.

The governance and ownership structure described above is for the initial phase of the new securitization platform. However, as the enterprises move forward, their securitization infrastructure must be updated and maintained as well, and where possible, taxpayers' dollars should be invested once, not twice.[171]

Servicing Alignment Initiative

FHFA's SAI outlines common guidelines for servicing enterprise loans with special attention to servicing delinquent loans.[172] The initiative has incentives and penalties intended to encourage servicer compliance with the updated guidelines.[173]

An important feature of the initiative involves loan servicer outreach to delinquent borrowers earlier than has ordinarily occurred in order to reduce delinquencies and mitigate credit losses.[174] In June 2012, FHFA issued new guidance focusing on three major servicing areas (i.e., borrower contact, loan modification, and foreclosure timelines) and introduced a standard borrower response package allowing the servicer to simultaneously evaluate a borrower for multiple foreclosure prevention possibilities, as well as new mortgage modification and evaluation options. The package also includes borrower contact timelines and call center standards.[175]

Joint Mortgage Servicing Compensation Initiative

The enterprises launched the Joint Servicing Compensation Initiative in January 2011 to reform the servicing model for single-family mortgage loans.[176] The current model consists of a servicing fee included in the loan's interest rate. When the servicer collects a payment from the borrower, it receives a portion of the interest as payment for servicing the loan.[177] In general (i.e., in an environment of pre-housing boom default rates), this small percentage of the mortgage interest payment is more than enough to cover the expense of servicing the loan. However, when a large number of a servicer's loans are nonperforming (i.e., the borrowers are not making their mortgage payments), the traditional fees received from the performing loans do not cover the servicer's expenses.[178]

According to FHFA, the Joint Servicing Compensation Initiative is intended to ensure a profitable and accessible business model for servicers, execution and nonperforming loan management options for originators, and the preservation of consumer choice and market liquidity.[179]

In September 2011, FHFA presented two alternative compensation structures. The first consists of a reduced servicing fee and a reserve account containing the remainder of the servicing fee available to the servicer for expenses incurred on nonperforming loans.[180]

The second proposed model is a "fee for service" model, in which the guarantor of the loan pays the servicer a fee per loan, regardless of the size of the mortgage or whether or not the loan is performing. The interest portion of the borrower's mortgage payment is the source of funding for fees paid to the servicer under both models.[181]

Uniform Mortgage Data Program

On May 24, 2010, FHFA announced an initiative to improve the consistency and quality of data for appraisals and other loan information. This initiative will enhance the collateral, borrower, and loan data submitted to the enterprises. The Uniform Mortgage Data Program is a long-term joint effort to create uniform data standards and collection processes.[182] Though the enterprises are working together on this initiative, each enterprise operates as a separate business and, according to FHFA, will continue to exercise independent business judgment on the use of loan data.[183]

FHFA believes that a common framework will result in better lender efficiency and enterprise risk management. Likewise, common data standards are expected to lead to more consistent data submissions from appraisers, mortgage lenders, servicers, and others. The enterprises will deploy the data standards program in phases, through a common platform that will include stakeholder input.[184]

A long-term goal of this initiative is to reduce representation and warranty risk through up-front monitoring of loan quality.[185]

New Representations and Warranties Framework

Loan sellers' representations and warranties to the enterprises are intended to protect the enterprises from credit losses on loans that do not meet their eligibility standards. In effect, they are a lender's assurance that the enterprises can rely on certain facts (representations) and circumstances (warranties) about the loans they are selling. Representations and warranties are outlined in lender contracts and purchasing documents, such as underwriting and documentation standards. Representation or warranty violations may breach the lender contract, which provides the enterprises with contractual remedies, including demanding that the lender repurchase the defective loan (known as a "put back" or "buy back").[186] Pursuing a buy back remedy may help compensate an enterprise for losses that are the legal responsibility of another party. Still, such remedies are costly and, some argue, have delayed market recovery because they led to new mortgages being underwritten to stricter standards than the enterprises require.[187]

On September 11, 2012, FHFA announced that the enterprises would be launching a new representation and warranty framework for conventional loans (loans not insured or guaranteed by FHA, VA, or USDA) funded, acquired, securitized, or guaranteed on or after January 1, 2013. The new framework clarifies lenders' long-term repurchase risk on loans by setting time limits on when repurchase claims can be asserted (no such time limits exist on loans originated prior to 2013).[188] The objective of the new framework is enhanced transparency for lenders and other industry participants, which is expected to result in greater efficiency and better access to mortgage financing.[189]

As long as the mortgages have an acceptable payment history for at least 36 months and meet other eligibility requirements, lenders will not be subject to repurchase demands.[190] The lender's responsibility to meet the requirements for loan quality, including responsible underwriting, remains the same.[191]

In a recent speech, FHFA's Acting Director noted cautious optimism about the housing market's future due to the signs of stabilization he saw in some sectors of the market.[192] Still, one of the biggest challenges remaining to FHFA is the lack of guidance or consensus from the Administration and Congress on ending the conservatorships of the enterprises.

Indeed, last month before the House Financial Services Committee, Acting Director DeMarco testified that "the biggest impediment, I suppose, for me, or the thing I could use most from Congress is . . . legislative direction."[193] Today, the future of the housing finance system is uncertain.

The following identifies various stakeholders and describes reform proposals that they have offered.

Reformers and Reforms

In July 2010, Congress enacted a wide-ranging legislative response to the nation's recession: the Dodd-Frank Wall Street Reform and Consumer Protection Act.[194] The law contains several housing finance reforms that are intended to address practices that contributed to the housing boom, including reducing the risk of borrower default. It also requires MBS issuers, in some circumstances, to retain credit risk in the assets they securitize, that is, to keep some skin in the game.[195] Although this law was intended to address some important problems that led to the housing crisis—lenders with little to lose loaning to borrowers with little to repay—it did not resolve other fundamental concerns about the current housing finance system, such as the appropriate role for the federal government in housing finance.

In February 2011, Treasury and HUD, on behalf of the Administration, issued a report to Congress, *Reforming America's Housing Finance Market*, which addresses the role of housing finance reform and outlines varying degrees of government support. Since then, other interested parties have proposed plans to reform housing finance, government support, and the enterprises. Congress, academics, industry experts, and interest groups have proposed comprehensive and incremental reforms.[196]

Below, we identify some of the key reformers and summarize the major categories of their reform proposals.

Reformers

The Administration

The Administration seeks to change the government's role in housing, make the private market the primary source of mortgage credit, and ultimately phase out the enterprises' role in the mortgage market.[197] The government, according to the Administration, should provide robust oversight, consumer and investor protection, targeted assistance for low- and moderate-income homeowners and renters, and support for market stability and crisis response.[198]

With these principles in mind, *Reforming America's Housing Finance Market* outlines three options for a privatized system of housing finance with targeted assistance from USDA, FHA, and VA. The primary difference between these proposals is that in option one, there is no broad government guarantee; in option two, there is a broad government guarantee only in times of crisis; and in option three, there is a standing government guarantee with significant private capital requirements.[199]

Legislative Proposals

Congressional enterprise reform bills have included a modification of the enterprises' current charter or the creation of a new private or government-owned company that would purchase and securitize mortgage loans with guarantee features.[200] Proposals concerning the existing enterprises generally focus on improving accountability, lowering the cost to the government, and reducing their competitive advantage in the marketplace.[201] Additionally, during the 112th Congress, members of Congress introduced four bills with deadlines for the enterprises to either return to shareholder control or be dissolved.[202]

Academics, Industry Experts, and Interest Groups

Academics and industry experts have suggested a wide range of enterprise reform proposals. Interest groups, representing consumers, the banking industry, mortgage originators, and other housing finance groups have also made reform proposals.[203] Though the proposals vary, they generally envision a private mortgage market backed by some type of governmental guarantee or **reinsurance**.[204]

Certain academic proposals argue for less volatility in housing credit and more protection in times of financial crisis by having an entity step in as a buyer "of last resort" providing additional liquidity.[205] Another proposal argues for splitting the enterprises into entities that respectively hold their collective good and bad assets (e.g., one enterprise takes control of their combined "good" assets and the other takes the "bad" assets).[206]

Reforms

Regardless of the source, the reform proposals generally fall into one of three broad categories:

- government model;[207]
- private model;[208] or
- hybrid model.[209]

Within these broad categories, some proposals seek modest reforms that may be implemented more rapidly, while others seek more fundamental changes with longer implementation periods—some as long as 15 years.[210] Some proposals suggest the creation of a new government or private entity that will purchase and securitize mortgage products; a few directly address the existing enterprises and their potential resolution.[211] What the proposals all have in common is that they have not progressed beyond general concepts and have been presented only at a high level. More granular issues, such as establishing underwriting and mortgage eligibility standards have not been addressed, but they need to be resolved if the reforms are intended to respond to the causes of the financial crisis.

Government Model

Generally, in the government model, a wholly owned government corporation would replace the enterprises for the purpose of purchasing approved residential mortgage products, securitizing them, and selling them to investors. Approved mortgage originators would pay a guarantee fee to the corporation in order to secure timely payment of interest and principal on the resulting security. This type of proposal requires the federal government to back all of the corporation's obligations.[212] Alternatively, the corporation under another variant of this proposal can guarantee the principal and interest payments of MBS without purchasing the underlying security similar to the security wrap provided by Ginnie Mae.[213]

The enterprises could be converted into a government corporation similar to Ginnie Mae under this model. Further, like Ginnie Mae, the government corporation could contract out aspects of its operations to minimize staffing.[214]

Private Model

The private model would allow private companies to purchase and securitize mortgages from lenders and guarantee the payment of principal and interest on the resulting securities. Under this model, there is no explicit guarantee of the securities or companies by the federal government. The key to most of the private model options is the wind down of the existing enterprises over 10- or 15-year periods.[215] In theory, this will incentivize the private sector as guarantee fees increase to what the market will bear. One variation on the private model proposes that private companies should purchase and securitize mortgages from loan originators, but a governmental agency would continue to guarantee the timely payment of the principal and interest on those securities. This agency is then phased out after a 10-year period.[216]

Some variants on the private model propose utilizing the existing enterprises as the private securitizer(s). Existing stockholders in the enterprises would receive shares in the new private company formed from the existing enterprises that would trade on one or more stock exchanges. This proposal notes that if the existing enterprises' market share is considered too dominant, multiple smaller companies may be formed or even split into specialized market segments.[217]

Hybrid Model

There are many variants of the hybrid model that envision blended roles for the government and private sector. Some of the hybrid models advocate full replacement of the enterprises; others are more modest and suggest modifying them. In the broadest context though, all the proposals in this group call for a private entity or group of entities to purchase and securitize mortgages from approved originators with some form of guarantee from the federal government.[218]

The proposals vary widely regarding the government's position as guarantor of principal and interest on the resulting MBS. Some proposals suggest the creation of a Federal Deposit Insurance Corporation-type agency to function as the first-in-line guarantor of repayment.[219] Other proposals recommend that the private issuers initially guarantee repayment, with the federal government providing some form of reinsurance or catastrophic loss backstop.[220] A similar hybrid approach suggests using private capital and possibly private mortgage insurance to absorb credit losses before the federal guarantee is tapped.[221]

Interplay between the private issuance of a security and a governmental guarantee is at the heart of most hybrid proposals.[222] The degree of government support tends to account for the variations among the proposals.

Among the hybrid model proposals there are divergent opinions on the appropriate level of federal participation in guaranteeing MBS. For instance, one proposal suggests limiting the federal guarantee under normal circumstances.[223] A similar proposal sets the target during normal market conditions at less than 10%.[224]

Pricing of the guarantee also is a significant issue for the plans. Risk-based pricing proposals, which price the guarantee fee based on estimates of risk, are common. One proposal estimates that the fair value of the guarantee fee lies between 45 and 55 basis points.[225] Another option seeks to finance the guarantee through a risk-based tax on the users of the system.[226]

Various hybrid models propose governmental intervention mechanisms in times of economic hardship. For example, there are proposals that suggest leaving the mortgage securitization market largely privatized, while having a government-owned corporation operating in that market at very low levels during periods of normal market activity. However, in the event of a market disruption, such as the one in 2008, the government-owned corporation would step in and stabilize the marketplace during the crisis.[227]

Conclusion

In February 2012, FHFA's Acting Director described the difficulty of fulfilling the agency's oversight responsibilities in the midst of uncertainty about the enterprises' future:

> At FHFA we are faced with a fundamental task of directing the operations of two companies that account for roughly three-quarters of current mortgage originations and have approximately $5 trillion in outstanding obligations and credit guarantees. FHFA's task is complicated by the uncertain future of the Enterprises and increasing dissatisfaction with various aspects of their business operations.[228]

In other words, FHFA must effectively direct the enterprises' operations—which comprise the engine of residential real estate transactions in the United States—while fundamental questions about their future roles and the future of housing finance remain unanswered.

It is now time for policymakers to begin to make the decisions that will shape that future.

Appendix A: Glossary and Acronyms

Glossary of Terms

Alternative 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.

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: Refers to hundredths 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 bondholder buying the investment is entitled to receive both principal and interest 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.

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.

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 still with 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.

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

Derivatives: Securities whose value depends on that of another asset, such as a stock or bond. 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.

Equity: In the context of residential mortgage finance, equity is the difference between the fair market value of the borrower's home and the outstanding balance on the mortgage and any other debt secured by the home.

Fannie Mae: A federally chartered corporation that purchases residential mortgages and converts them into securities for sale 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 funding to other banks but not 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: The legal process used by a lender to obtain possession of a mortgaged property.

Freddie Mac: A federally chartered corporation that purchases residential mortgages, securitizes them, and sells them to investors; thus, Freddie Mac provides lenders with funds that can be used to 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 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.

Housing and Economic Recovery Act: HERA, enacted in 2008, 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: Enacted in 1978, this statute 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: Enacted in 2008, this statute 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."

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 obligor 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.

Lien: The lender's right to have a specific piece of the debtor's property sold if the debt is not repaid. With respect to residential mortgages, the noteholder retains a lien on the house (as evidenced by the mortgage or deed of trust) until the loan is repaid.

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.

Losses on Derivatives: 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 losses on derivative agreements are caused by changes in interest rates that, in turn, cause a net decrease in the fair value of these agreements.

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.

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

Personally Identifiable Information: Information that can be used to identify an individual, such as name, date of birth, social security number, or address.

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 derived from mortgage loan pools assembled 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.

Reinsurance: Reducing a large amount of risk by dividing it up among several parties, thus reducing the individual burden.

Retained Mortgage Portfolio: Mortgage-related securities purchased by the enterprises and held as an investment.

Securitization: A process whereby a financial institution assembles pools of income-producing assets (such as loans) and then sells an interest in the assets' cash flows as securities 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. 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.

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).

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Acronyms and Abbreviations

Agency Federal Housing Finance Agency

AMFS American Mortgage Field Services LLC

AMS American Mortgage Specialists

ATSC Advanced Technology Systems, Inc.

Blue Book *Quality Standards for Inspection and Evaluation*

BNC BNC National Bank

CIGIE Council of the Inspectors General on Integrity and Efficiency

CRS Call Report System

CSP Common Securitization Platform

DER Division of Enterprise Regulation

DOJ Department of Justice

Enterprises Fannie Mae and Freddie Mac

EO Executive Office

Fed ED Federal Reserve's Eurodollar Deposit Rate

FHA Federal Housing Administration

FHFA Federal Housing Finance Agency

FHLBanks Federal Home Loan Banks

FHLBank System Federal Home Loan Bank System

FinCEN Financial Crimes Enforcement Network

GAO Government Accountability Office

GSEs Government-Sponsored Enterprises

HARP Home Affordable Refinance Program

HERA Housing and Economic Recovery Act of 2008

HUD Department of Housing and Urban Development

HUD-OIG Department of Housing and Urban Development Office of Inspector General

I&E Inspection and Evaluation

IPIA Improper Payments Information Act

IRS-CI IRS-Criminal Investigation

LIBOR London Interbank Offered Rate

LTV Loan-to-Value

MBS Mortgage-Backed Securities

MSR Mortgage Servicing Rights

NAIC National Association of Insurance Commissioners

OA Office of Audits

OAd Office of Administration

OC Office of Counsel

OE Office of Evaluations

OI Office of Investigations

OIG Federal Housing Finance Agency Office of Inspector General

OPOR Office of Policy, Oversight, and Review

PII Personally Identifiable Information

PSPAs Senior Preferred Stock Purchase Agreements

REO Real Estate Owned

RMBS Residential Mortgage-Backed Securities

SAI Servicing Alignment Initiative

SEC Securities and Exchange Commission

SIGTARP Office of the Special Inspector General for the Troubled Asset Relief Program

SORN System of Records Notice

Treasury Department of the Treasury

USDA Department of Agriculture

USPIS Postal Inspection Service

VA Department of Veterans Affairs

Yellow Book *Government Auditing Standards*

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 23 (see page 79) summarizes OIG's formal recommendations that were made, pending, or closed during the reporting period. Figure 24 (see page 93) summarizes OIG's formal recommendations derived from reports for which all of the recommendations were closed in prior semiannual periods.

Figure 23. Summary of OIG Recommendations

No.	Recommendation	Report	Status
EVL-2013-003-1	FHFA should continue to monitor Freddie Mac's implementation of its counterparty risk management policies and procedures by: • ensuring that the independence and decisions of the enterprise's risk management staff are not overridden by business management staff; and • directing Freddie Mac Internal Audit to audit the counterparty credit risk management function annually.	*Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2013-003-2	FHFA should continue to pursue all possible avenues to recover the $1.2 billion in the Lehman bankruptcy proceedings.	*Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2013-003-3	FHFA should continue to develop an examination program and procedures encompassing enterprise-wide risk exposure to all of Freddie Mac's counterparties.	*Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2013-001-1	FHFA should develop a long-term plan to strengthen its oversight of the enterprises' non-executive compensation through reviews or examinations, focusing on senior professional compensation. The plan should set priorities, ensure that available staffing resources are commensurate with them, and establish an appropriate time frame for its implementation. With respect to the reviews and examinations contemplated by its plan, the agency should consider including the following items as priorities: • the enterprises' general structures, processes, and cost controls for senior professional compensation; • the enterprises' controls over compensation offers to new hires; and • the enterprises' compliance with the pay freeze with respect to the use of promotions and changes in responsibility.	*FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2012-009-1	FHFA should continue to monitor Freddie Mac's hedges and models to ensure the enterprise's portfolio is hedged within its approved interest rate limits.	*FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-009-2	FHFA should conduct periodic reviews and tests of Freddie Mac's information wall to confirm that the enterprise is not trading on nonpublic information.	*FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-009-3	FHFA should ensure that supervisory policies are well-founded and coordinated and that the agency speaks with one voice by: • confirming its position or the agreement in writing as soon as practical if FHFA is going to take a position or believes it has come to an agreement with Freddie Mac regarding a particular investment product; and • ensuring that supervisory policies are based on the robust work of agency personnel and not reactions to media or other public scrutiny.	*FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters*	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
EVL-2012-009-4	Prior to issuing any public statement, FHFA should exercise due diligence to ensure that statements accurately reflect all relevant facts.	*FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-008-1	FHFA should consider revising FHFA's delegation of authorities to require FHFA approval of unusual, high-cost, new initiatives, like the High Touch Servicing Program.	*Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-008-2	FHFA should ensure that Fannie Mae does not have to pay a premium to transfer inadequately performing portfolios.	*Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2012-008-3	Consistent with the control issues found in Fannie Mae's internal audit report on the High Touch Servicing Program, FHFA should ensure that Fannie Mae applies additional scrutiny and rigor to pricing significant MSR transactions. Specifically, FHFA should: • consider requiring Fannie Mae to assess the valuation methods of multiple MSR valuators in order to discern best practices; and • consider requiring two independent valuations in the case of larger MSR transactions (at a threshold to be determined by FHFA).	*Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-008-4	FHFA should assess the efficacy of the program and direct any necessary modifications. FHFA should review both the underlying assumptions and the performance criteria for the High Touch Servicing Program.	*Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-007-1	FHFA and Freddie Mac should continue to carry out the loan review and related reforms they have initiated since OIG's original report on the Bank of America settlement with Freddie Mac was issued.	*Follow-up on Freddie Mac's Loan Repurchase Process*	The recommendation is unresolved and a management decision has not been made as of March 31, 2013.
EVL-2012-005-1	FHFA should continue its ongoing horizontal review of unsecured credit practices at the FHLBanks by: • 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.	*FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2012-005-2	FHFA should strengthen the regulatory framework around the FHLBanks' extension of unsecured credit by: • 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.	*FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-001-1	FHFA should develop and implement a clear, consistent, and transparent written enforcement policy that: • requires troubled FHLBanks (those classified as having supervisory concerns) to correct identified deficiencies within specified time frames; • establishes consequences for their not doing so; and • defines exceptions to the policy.	*FHFA's Oversight of Troubled Federal Home Loan Banks*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2012-001-2	FHFA should develop and implement a reporting system that permits agency managers and outside reviewers to assess readily examination report findings, planned corrective actions and time frames, and their status.	*FHFA's Oversight of Troubled Federal Home Loan Banks*	Closed—Final action taken by FHFA.
EVL-2012-001-3	FHFA should consistently document key activities, including recommendations to remove and replace senior officers and other personnel actions involving FHLBanks.	*FHFA's Oversight of Troubled Federal Home Loan Banks*	Closed—Final action taken by FHFA.
EVL-2011-006-1	FHFA should promptly act on the specific, significant concerns raised by FHFA staff and Freddie Mac internal auditors about its loan review process.	*Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America*	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
EVL-2011-006-2	FHFA should promptly initiate management reforms to ensure that senior managers are apprised of and timely act on significant concerns brought to their attention, particularly when they receive reports that the normal reporting and supervisory process is not working properly.	*Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
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.	*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*	Recommendation agreed to by FHFA; implementation of recommendation pending.
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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	Recommendation agreed to by FHFA; implementation of recommendation pending.
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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	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.	*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2013-006-1	To enhance its oversight of FHLBank advances to insurance companies, FHFA should pursue memoranda of understanding allowing FHFA to obtain confidential supervisory and other regulatory information from the insurance regulators of states in the districts of those FHLBanks with the highest concentrations of insurance company lending—the FHLBanks of Des Moines, Indianapolis, Topeka, New York, and Cincinnati—to improve FHFA's ability to evaluate whether the FHLBanks are adequately assessing the condition and operations of their insurance company members.	*FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-006-2	To enhance its oversight of FHLBank advances to insurance companies, FHFA should seek to participate in regular meetings of relevant National Association of Insurance Commissioners working groups to gather information on current and developing issues relevant to the FHLBanks.	*FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-004-1	FHFA should update its examination guide (*Supervision Reference and Procedures Manual, Credit Risk-Multifamily*), in consideration of industry standards, to include qualitative guidance for examiners to follow when determining the sampling size and testing coverage of loan files.	*FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-004-2	FHFA should require examiners to maintain documentation adequate to support adherence to the sampling methodology developed in the updated examination guide.	*FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-002-1	FHFA's Office of Budget and Financial Management Contracting Operations Section contracting officer should review the total unallowable payments of $256,343 made to ATSC under the contract/task order and recapture the amounts identified as not allocable ($21,329), unreasonable ($47,743), and unsupportable ($187,271).	*FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2013-002-2	FHFA's Office of Budget and Financial Management Contracting Operations Section contracting officer should determine whether additional corrective actions are warranted to recapture additional unreasonable costs billed by ATSC to FHFA after November 2011. (OIG did not review charges submitted after November 30, 2011.)	*FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-002-3	FHFA's Office of Budget and Financial Management Contracting Operations Section contracting officer's representative should revisit this contract/task order and perform the necessary analysis to ensure that ATSC employees had the education background and experience as required under the General Services Administration master contract. The FHFA contracting officer should recapture all expenses, when applicable, paid to the contractor for employees working in positions without proper qualifications.	*FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.*	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2013-002-4	The Director of the Office of Budget and Financial Management should issue guidance to all acquisition staff and approving officials, including contracting officers and contracting officer's representatives, on: • cost allocation and proper procedures for assigning costs to contracts in accordance with benefits received and based on the appropriate cost objective; • proper procedures for ensuring that contract employees meet labor category qualifications specified in time and material/labor hour contracts; • proper procedures for obtaining sufficient justification prior to increasing funds, adjusting fixed labor rates, and approving payments on time and material contracts; • appropriate procedures for evaluating contractor price proposals and documenting the agency's pre-negotiation position prior to awarding contract modifications; and • appropriate use of contractor employees to substitute for internal agency positions and approving invoices based on contractual terms and provisions.	*FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2013-002-5	The FHFA contracting officer should remove the $105,000 of excess funds from contract line item number 1 to account for technical writing services ATSC was no longer required to perform under the contract line item number. Thereafter, the contracting officer should compare the new contract ceiling to the actual amount ATSC billed against contract line item number 1 and recapture any unallowable costs that exceed the new ceiling price.	*FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc.*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-001-1	FHFA should routinely obtain deficiency-related information, such as the size of the enterprises' deficiencies, their effectiveness in targeting for deficiency collection defaulting borrowers who continue to have the ability to repay their loans, the number or amount of their collection referrals, and their recovery rate.	*FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-001-2	Based on an analysis of the deficiency data, FHFA should incorporate deficiency management into FHFA's supervisory review process.	*FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2013-001-3	FHFA should issue written guidance to the enterprises on managing their deficiency collection processes, including at a minimum whether they should be pursuing the same type of defaulted borrowers and pursuing collections in the same states.	*FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-008-1	FHFA should reassess the nondelegated authorities to ensure sufficient FHFA involvement with major business decisions.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Closed—Final action taken by FHFA.
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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Closed—Final action taken by FHFA.
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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
AUD-2012-008-6	FHFA should establish a clear timetable and deadlines for enterprise submission of transactions to FHFA for conservatorship approval.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-008-7	FHFA should develop criteria for conducting business case analyses and substantiating conservator decisions.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	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.	*FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-007-1	FHFA should issue standards, by regulation or guidelines, for the enterprises to develop comprehensive contingency plans for their high-risk and high-volume seller/servicers (individually or by group). At a minimum, these standards should include quantitative assessment, event management (e.g., curtailing business with or transferring business from a seller/servicer or specifying reasonable time frames for reducing risks), monitoring, and testing elements.	*FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-007-2	FHFA should finalize its February 2012 draft examination manual to include elements related to contingency planning.	*FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Servicers*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-006-1	FHFA's Deputy Director of the Division of Enterprise Regulation (DER) and Office of Financial Analysis' Senior Associate Director should ensure that the agency analyzes opportunities to use call report system (CRS) information to facilitate supervision and regulation of the enterprises.	*FHFA's Call Report System*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-006-2	FHFA's Deputy Director of DER and Office of Financial Analysis' Senior Associate Director should ensure that the agency supports identified opportunities for using CRS in its oversight planning and monitoring with detailed supervisory and support division requirements.	*FHFA's Call Report System*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-006-3	FHFA's Deputy Director of DER and Office of Financial Analysis' Senior Associate Director should ensure that the agency, if current CRS capabilities need improvement, directs divisions to work with FHFA's Office of Technology and Information Management and CRS system owners to enhance and improve CRS to meet FHFA's supervisory needs.	*FHFA's Call Report System*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-005-1	FHFA's Deputy Director of DER should implement the performance of risk assessments of REO that are more comprehensive and link the results to supervisory plans that address those risks through specific supervisory activities.	*FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-001-1A	FHFA's DER should implement more robust regulations or guidance governing counterparty oversight and risk management for mortgage servicing. The regulations or guidance should include requirements for contracting with servicers, including a contractual provision authorizing FHFA's access to relevant servicer information.	*FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-001-1B	FHFA's DER should implement more robust regulations or guidance governing counterparty oversight and risk management for mortgage servicing. The regulations or guidance should include requirements for promptly reporting on material poor performance and noncompliance by servicers.	*FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors*	Closed—Final action taken by FHFA.
AUD-2012-001-1C	FHFA's DER should implement more robust regulations or guidance governing counterparty oversight and risk management for mortgage servicing. The regulations or guidance should include requirements for minimum, uniform standards for servicing mortgages owned or guaranteed by the enterprises.	*FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-001-2	FHFA's DER should direct Freddie Mac to take the necessary steps to monitor and track the performance of its servicers to reasonably assure achievement of credit loss savings by: (1) implementing servicer account plans for the servicers without account plans that are under consideration to receive a plan, and (2) taking action to maximize credit loss savings among the remaining servicers that are not under consideration for account plans.	*FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors*	Recommendation agreed to by FHFA; implementation of recommendation pending.
AUD-2012-001-3	FHFA's DER should improve its existing procedures and controls governing coordination with other federal agencies that have oversight jurisdiction with respect to the enterprises' mortgage servicers.	*FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors*	Closed—Final action taken by FHFA.
AUD-2011-002-1	FHFA should finalize, disseminate, and implement an agency-wide information security program plan in accordance with the National Institute of Standards and Technology's special publication 800-53 (revision 3).	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program – 2011*	Reopened based upon follow-up audit work; implementation of recommendation pending.
AUD-2011-002-2	FHFA should update its information security policies and procedures to address all applicable components of the National Institute of Standards and Technology's special publication 800-53 (revision 3).	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program – 2011*	Reopened based upon follow-up audit work; implementation of recommendation pending.
AUD-2011-002-3	FHFA should develop, disseminate, and implement an agency-wide information categorization policy and methodology.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program – 2011*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
AUD-2011-002-4	FHFA should develop, disseminate, and implement a process to monitor compliance with plans of action and milestones.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program – 2011*	Reopened based upon follow-up audit work; implementation of recommendation pending.
AUD-2011-002-5	FHFA should establish controls for tracking, monitoring, and remediating weaknesses noted in vulnerability scans.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program – 2011*	Closed—Final action taken by FHFA.

Figure 24. Summary of OIG Reports Where All Recommendations Are Closed

No.	Recommendation	Report	Status
EVL-2012-006-1	FHFA should adhere to the requirements in the PSPAs that it certify: (1) that the enterprises have complied with the PSPA covenants, and (2) that the enterprises' financial statements and related documents provided to Treasury under the PSPAs are free of materially false or misleading representations.	*FHFA's Certifications for the Preferred Stock Purchase Agreements*	Closed—Final action taken by FHFA.
EVL-2012-006-2	FHFA should implement oversight procedures to ensure the enterprises' compliance with PSPA requirements.	*FHFA's Certifications for the Preferred Stock Purchase Agreements*	Closed—Final action taken by FHFA.
ESR-2012-004-1	FHFA should ensure that the enterprises conduct a comprehensive review of their travel and entertainment policies and revise them in a manner consistent with the January 25, 2012, guidance.	*Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Annual Convention and Exposition*	Closed—Final action taken by FHFA.
ESR-2012-004-2	FHFA should review the enterprises' proposed revisions to ensure that they are drafted in a manner consistent with the guidance provided by FHFA and that the enterprises have established appropriate controls to monitor compliance.	*Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Annual Convention and Exposition*	Closed—Final action taken by FHFA.
ESR-2012-003-1	FHFA should continue to monitor the enterprises' progress in phasing out their charitable activities.	*FHFA's Oversight of the Enterprises' Charitable Activities*	Closed—Final action taken by FHFA.
ESR-2012-003-2	FHFA should continue to require the enterprises to issue timely, quarterly reports on their charitable activities via their websites.	*FHFA's Oversight of the Enterprises' Charitable Activities*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
EVL-2012-002-1	FHFA should work to limit legal expenses to the extent possible and reasonable by: • narrowing the reach of future indemnification agreements; • considering making greater use of directors' and officers' insurance; and • continuing to invoke the new FHFA regulation establishing the primacy of claims in a receivership in an effort to curtail costly litigation.	*Evaluation of FHFA's Management of Legal Fees for Indemnified Executives*	Closed—Final action taken by FHFA.
EVL-2012-002-2	FHFA should continue to control costs of legal expenses by: • identifying the best elements of Fannie Mae's and Freddie Mac's programs for administering advances and indemnification of legal expenses and developing standardized legal billing practices for both enterprises; and • further developing FHFA oversight procedures.	*Evaluation of FHFA's Management of Legal Fees for Indemnified Executives*	Closed—Final action taken by FHFA.
EVL-2011-005-1	FHFA should assess: (1) the extent to which examination capacity shortfalls may have adversely affected the examination program, and (2) potential strategies to mitigate risks, such as achieving efficiencies in the assignment of examiners or the examination process.	*Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*	Closed—Final action taken by FHFA.
EVL-2011-005-2	FHFA should monitor the development and implementation of the examiner accreditation program and take needed actions to address any shortfalls.	*Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*	Closed—Final action taken by FHFA.
EVL-2011-005-3	FHFA should consider using detailees from other federal agencies, retired annuitants, or contractors to augment its examination program in the near term to midterm.	*Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
EVL-2011-005-4	FHFA should report periodically to Congress and the public, which might include the augmentation of existing reports, on the agency's examiner capacity shortfalls, such as the number of examiners needed to meet its responsibilities; the progress in addressing these shortfalls, including status of examiner recruitment and retention efforts; and the development and implementation of its examiner accreditation program.	*Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*	Closed—Final action taken by FHFA.
EVL-2011-004-1	FHFA should closely monitor Fannie Mae's implementation of its operational risk management program.	*Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk*	Closed—Final action taken by FHFA.
EVL-2011-004-2	FHFA should take decisive and timely actions to ensure the implementation of the program if Fannie Mae fails to establish an acceptable and effective operational risk program by the end of the first quarter of 2012.	*Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk*	Closed—Final action taken by FHFA.
EVL-2011-004-3	FHFA should ensure that Fannie Mae has qualified personnel to implement its operational risk management program.	*Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk*	Closed—Final action taken by FHFA.
EVL-2011-003-1	FHFA should engage in negotiations with Treasury and the enterprises to amend the Financial Agency Agreements, under which the enterprises administer and enforce the Home Affordable Modification Program, by incorporating specific dispute resolution provisions so that the parties may discuss differences that arise in its administration and establish strategies by which to resolve or mitigate them.	*Evaluation of FHFA's Role in Negotiating Fannie Mae's and Freddie Mac's Responsibilities in Treasury's Making Home Affordable Program*	Closed—Final action taken by FHFA.
EVL-2011-002-1A	FHFA should review the disparity in compensation levels between the enterprises' executives and the senior executives of housing-related federal entities that are providing critical support to the housing finance system.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
EVL-2011-002-1B	FHFA should review the extent to which federal financial support for the enterprises may facilitate their capacity to meet certain performance targets and, by extension, the capacity of their executives to achieve high levels of compensation that may not be warranted.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-002-1C	FHFA should review the potential challenges the enterprises might face in recruiting and retaining technical expertise, which might include the employment of objective metrics to assess these issues and the extent to which existing compensation levels may need to be revised.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-002-2A	FHFA should establish written criteria and procedures for reviewing annual performance and assessment data, as well as their recommended executive compensation levels.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-002-2B	FHFA should conduct independent testing and verification, perhaps on a random basis, to gain assurance that the enterprises' bases for developing recommended individual executive compensation levels is reasonable and justified.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-002-2C	FHFA should create and implement policies to ensure that all key executive compensation documents are stored consistently and remain readily accessible to appropriate agency officials and staff.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
EVL-2011-002-3A	To improve transparency, FHFA should post on its website information about executive compensation packages, the enterprises' corporate performance goals and performance against those goals, and related trend data.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-002-3B	To improve transparency, FHFA should post on its website links to the enterprises' securities filings.	*Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs*	Closed—Final action taken by FHFA.
EVL-2011-001-1	FHFA should establish time frames and milestones, descriptions of methodologies to be used, criteria for evaluating the implementation of the initiatives, and budget and financing information necessary to carry out its responsibilities.	*Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform*	Closed—Final action taken by FHFA.
EVL-2011-001-2	FHFA should develop an external reporting strategy, which might include the augmentation of existing reports, to chronicle FHFA's progress, including the adequacy of its resources and capacity to meet multiple responsibilities and mitigate any shortfalls.	*Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform*	Closed—Final action taken by FHFA.
AUD-2012-004-1	FHFA should document fully its efforts to ensure that FHLBanks correct identified deficiencies in collateral risk management.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-004-2	FHFA should implement and follow up on the horizontal review recommendations related to the need for additional guidance and training and the need to conduct a follow-up horizontal review of secured credit.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-004-3	FHFA should advise FHLBanks to reassess business plans periodically that rely on troubled members for advance growth.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-004-4	FHFA should develop policies and procedures to ensure that offsite monitoring analyses relevant to supervisory issues, including those related to advances and collateral risk management, are distributed to examination staff and are used to enhance examinations.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-004-5	FHFA should continue to enhance coordination with the federal banking agencies and the FHLBanks, including the use of established memoranda of understanding or other written agreements, to obtain bank examinations and other supervisory information as warranted to ensure improved collateral risk management and to facilitate information sharing related to member banks that present heightened supervisory concerns or that have advance concentrations.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-004-6	FHFA should continue to pursue greater participation in the Federal Financial Institutions Examination Council to enhance the agency's coordination with federal banking agencies and state regulatory authorities responsible for supervising and regulating FHLBank member banks.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-004-7	FHFA should establish a consolidated global watch list of member banks identified by the FHLBanks or by FHFA that present heightened supervisory concern and use the global watch list to enhance the agency's supervision of the FHLBanks.	*FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management*	Closed—Final action taken by FHFA.
AUD-2012-003-1	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.	*FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2012-003-2	FHFA's Division of Examination Program and Support should enhance existing examination guidance for assessing adherence to underwriting standards and variances from them.	*FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards*	Closed—Final action taken by FHFA.
AUD-2011-004-1	FHFA should review the circumstances surrounding its not identifying the foreclosure abuses at an earlier stage and develop potential enhancements to its capacity to identify new and emerging risks.	*FHFA's Oversight of Fannie Mae's Default-Related Legal Services*	Closed—Final action taken by FHFA.
AUD-2011-004-2	FHFA should develop and implement comprehensive examination guidance and procedures, together with supervisory plans, for default-related legal services.	*FHFA's Oversight of Fannie Mae's Default-Related Legal Services*	Closed—Final action taken by FHFA.
AUD-2011-004-3	FHFA should develop and implement policies and procedures to address poor performance by default-related legal services vendors that have contractual relationships with both of the enterprises.	*FHFA's Oversight of Fannie Mae's Default-Related Legal Services*	Closed—Final action taken by FHFA.
AUD-2011-003-1	FHFA should document, disseminate, and implement a privacy training plan and implementation approach.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-2	FHFA should identify those employees that would benefit from additional job-specific or role-based privacy training based on increased responsibilities related to personally identifiable information (PII).	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-3	FHFA should develop and implement targeted, role-based training for employees whose job functions require additional job-specific or role-based privacy training.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2011-003-4	FHFA should develop and implement additional training for employees about System of Records Notice (SORN) requirements, focusing on the inadvertent creation of systems of records. This training should stress the legal ramifications potentially associated with creating systems of records prior to publishing a SORN.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-5	FHFA should strengthen its privacy-related procedures to ensure SORNs are completed prior to systems becoming operational.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-6	FHFA should require system owners of four FHFA systems with PII to prepare privacy impact assessments according to a checklist or template.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-7	FHFA should document the privacy impact assessments conducted for proposed rules of the agency as required by Section 522.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.
AUD-2011-003-8	FHFA should establish a process for the completion of template- or checklist-based privacy impact assessments and modify policies and procedures as necessary.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2011-003-9	FHFA should ensure privacy risk is continuously assessed on systems in production, including when functionalities change or when a major update is done. The Chief Privacy Officer should document, disseminate (to system owners and the Chief Information Security Officer), and implement policies and procedures for continuous monitoring of information systems containing PII after they are placed in production. The policies and procedures at a minimum should: • document the privacy-related security controls that are to be monitored to protect information in an identifiable form and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction; • determine the frequency of the privacy-related security controls monitoring and reporting process to the privacy office; • document review of reports generated by the monitoring of the privacy-related security controls; and • if necessary, take action on results of monitoring and document results of action taken.	*Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation – 2011*	Closed—Final action taken by FHFA.

No.	Recommendation	Report	Status
AUD-2011-001-1A	FHFA should design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that: • define FHFA's and the enterprises' roles and responsibilities regarding consumer complaints; • require the retention of supporting documentation for all processing and disposition actions; • require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints; • ensure timely and accurate responses to complaints; • facilitate the analysis of trends in consumer complaints received and use the resulting analyses to mitigate areas of risk to the agency; • safeguard PII; and • ensure coordination with OIG regarding allegations involving fraud, waste, or abuse.	*Audit of the Federal Housing Finance Agency's Consumer Complaints Process*	Closed—Final action taken by FHFA.
AUD-2011-001-1B	FHFA should assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.	*Audit of the Federal Housing Finance Agency's Consumer Complaints Process*	Closed—Final action taken by FHFA.
AUD-2011-001-1C	FHFA should determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.	*Audit of the Federal Housing Finance Agency's Consumer Complaints Process*	Closed—Final action taken by FHFA.

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 its 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 OIG must include in its 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 paragraphs and figures below further address 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.	6-15
Section 5(a)(2)- A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	6-15 79-92
Section 5(a)(3)- An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	80-82 87-92
Section 5(a)(4)- A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	19-27
Section 5(a)(5)- A summary of each report made to the Director of FHFA.	6-15
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.	6-15 105
Section 5(a)(7)- A summary of each particularly significant report.	6-15
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.	6-15 105
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.	6-15 105
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.	105-106
Section 5(a)(11)- A description and explanation of the reasons for any significant revised management decision made during the reporting period.	106
Section 5(a)(12)- Information concerning any significant management decision with which the Inspector General is in disagreement.	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 25 (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. Figure 26 (see page 106) summarizes recommendation number 1 of evaluation report *Follow-up on Freddie Mac's Loan Repurchase Process* (EVL-2012-007, September 13, 2012), which was issued before the beginning of the reporting period and is awaiting a management decision.

Figure 25. Funds to Be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period October 1, 2012, to March 31, 2013

Reports Issued	Recommendation No.	Date	Potential Monetary Benefits		
			Questioned Costs	Unsupported Costs	Funds Put to Better Use
AUD-2013-002	5	11/28/2012	$-	$-	$105,000
AUD-2013-002	1 and 4c	11/28/2012	$-	$187,271	$-
AUD-2013-002	1, 2, and 4b	11/28/2012	$47,743	$-	$-
AUD-2013-002	1 and 4a	11/28/2012	$21,329	$-	$-
Total			**$69,072**	**$187,271**	**$105,000**

Figure 26. Summary of OIG Audit and Evaluation Reports Issued Before the Beginning of the Reporting Period Where No Management Decision Was Made by the End of the Reporting Period

No.	Recommendation	Report	Status
EVL-2012-007-1	FHFA and Freddie Mac should continue to carry out the loan review and related reforms they have initiated since OIG's original report on the Bank of America settlement with Freddie Mac was issued.	*Follow-up on Freddie Mac's Loan Repurchase Process*	The recommendation is unresolved and a management decision has not been made as of March 31, 2013.

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 March 31, 2013, there were no significant revised management decisions on OIG's audits and evaluations.

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 were no management decisions with which the Inspector General disagreed.

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 2012, FHFA received from 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 instances of noncompliance with laws or regulations. GAO is required to perform this audit in accordance with HERA.

Several OIG reports published during the semiannual period identified specific opportunities to strengthen FHFA's internal controls. These reports are summarized on pages 6 through 15.

Subpoenas Issued

During the reporting period, OIG issued a number of subpoenas as summarized in Figure 27 (see below).

Figure 27. Subpoenas Issued for the Period October 1, 2012, to March 31, 2013

Issuing Office	Number of Subpoenas
OA	4
OE	0
OI	36
Total	**40**

Appendix D: OIG Reports

See www.fhfaoig.gov for OIG's reports.

Evaluation Reports

Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-003, March 14, 2013).

FHFA's Oversight of Public Statements (ESR-2013-002, February 28, 2013).

FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001, December 10, 2012).

Audit Reports

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 (AUD-2013-008, March 26, 2013).

Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements (AUD-2013-007, March 21, 2013).

FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups (AUD-2013-006, March 18, 2013).

FHFA's Controls to Detect and Prevent Improper Payments (AUD-2013-005, February 28, 2013).

FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac (AUD-2013-004, February 21, 2013).

CliftonLarsonAllen LLP's Evaluation of the Federal Housing Finance Agency's Information Security Program – 2012 (AUD-2013-003, November 30, 2012).

FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc. (AUD-2013-002, November 28, 2012).

FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales (AUD-2013-001, October 17, 2012).

Other Reports

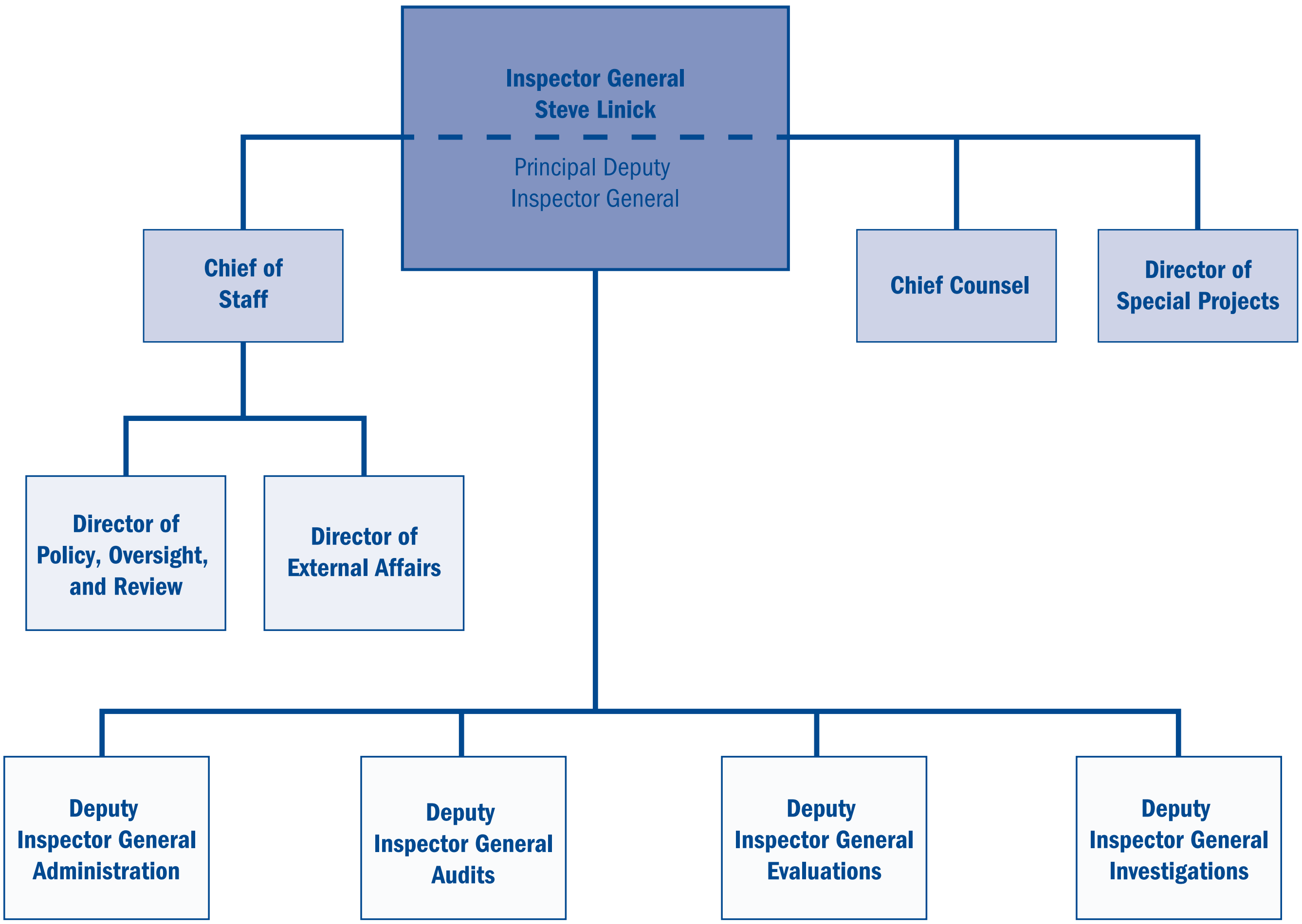
Analysis of the 2012 Amendments to the Senior Preferred Stock Purchase Agreements (WPR-2013-002, March 20, 2013).

The Housing Government-Sponsored Enterprises' Challenges in Managing Interest Rate Risks (WPR-2013-01, March 11, 2013).

Enterprise Oversight of Property Preservation Inspections (SIR-2013-0002, November 26, 2012).

Weakness in Enterprises' Uniform Residential Loan Application (Freddie Mac Form 65/Fannie Mae Form 1003) (SIR-2013-001, November 15, 2012).

Appendix E: OIG Organizational Chart



Appendix F: Description of OIG Offices and Strategic Plan

OIG Offices

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 the *Government Auditing Standards*, commonly referred to as the "Yellow Book," issued by GAO. OA performs its audits and attestation engagements in accordance with the Yellow Book.

Office of Evaluations

OE provides independent and objective reviews, studies, survey reports, and analyses of FHFA's programs and operations. OE's evaluations are generally limited in scope. 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.

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.

The Hotline for fraud, waste, or abuse related to FHFA's programs and operations is (800) 793-7724 or oighotline@fhfaoig.gov

To date, OI has opened numerous 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 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 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.

EO also includes the Office of Policy, Oversight, and Review (OPOR), which provides advice, consultation, and assistance regarding OIG's priorities and the scope of its evaluations, audits, and all other published reports. In addition, OPOR manages OIG's Audit and Evaluation Report Production Process and produces special reports and white papers addressing complex housing finance issues.

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

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, information technology, 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. OAd also administers OIG's Equal Employment Opportunities Program.

OIG's Strategic Plan

On September 7, 2011, OIG published a Strategic Plan to define its goals and objectives, guide development of its performance criteria, establish measures to assess accomplishments, create budgets, and report on progress. OIG will continue to monitor events; make changes to its 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 align with FHFA's strategic goals.

Strategic Goal 1—Adding Value

OIG will promote the economy, efficiency, and effectiveness of FHFA's programs and operations and assist FHFA and its stakeholders to solve problems related to the conservatorships and the conditions that led to them.

Strategic Goal 2—Operating with Integrity

OIG will promote the integrity of FHFA's programs and operations through the identification and prevention of fraud, waste, or abuse.

Strategic Goal 3—Promoting Productivity

OIG will deliver quality products and services to its stakeholders by maintaining an effective and efficient internal quality control program to ensure that OIG's results withstand professional scrutiny.

Strategic Goal 4—Valuing OIG Employees

OIG will maximize the performance of its employees and the organization.

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

Figure 1. Federal Housing Finance Agency Office of Inspector General, "FHFA's Control and Oversight of Enterprise Executive Compensation," *FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals*, EVL-2013-001, at 12 (December 10, 2012). Accessed: April 11, 2013, at www.fhfaoig.gov/Content/Files/EVL-2013-001.pdf.

Figure 2. Federal Housing Finance Agency Office of Inspector General, "FHFA's Oversight of Non-Executive Compensation," *FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals*, EVL-2013-001, at 17 (December 10, 2012). Accessed: April 11, 2013, at www.fhfaoig.gov/Content/Files/EVL-2013-001.pdf.

Figure 3. Federal Housing Finance Agency Office of Inspector General, "Preface," *FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals*, EVL-2013-001, at 6 (December 10, 2012). Accessed: April 11, 2013, at www.fhfaoig.gov/Content/Files/EVL-2013-001.pdf.

Figure 4. Fannie Mae, "Notes to Consolidated Financial Statements," *Form 10-K for the Fiscal Year Ended December 31, 2012*, at F-55. Accessed: April 11, 2013, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf. Freddie Mac, "Deferred Tax Assets, Net," *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 273. Accessed: April 11, 2013, at www.freddiemac.com/investors/er/pdf/10k_022813.pdf.

Figure 5. Federal Housing Finance Agency, "Historical Data Tables," *2011 Report to Congress*, at 75, 92 (June 13, 2012). Accessed: April 11, 2013, at www.fhfa.gov/webfiles/24009/FHFA_RepToCongr11_6_14_508.pdf. Department of the Treasury, *Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac* (August 17, 2012). Accessed: April 11, 2013, at www.treasury.gov/press-center/press-releases/Pages/tg1684.aspx.

Figure 6. Data provided by servicers that OIG reviewed during the course of our audit fieldwork (*Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements* (AUD-2013-007, March 21, 2013)).

Figure 7. Federal Home Loan Banks Office of Finance, "Security Ownership of Certain Beneficial Owners," *2009 Combined Financial Report*, at 186. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/09yrend.pdf. Federal Home Loan Banks Office of Finance, "Combined Statement of Condition," *Combined Financial Report for the Year Ended December 31, 2011*, at 42. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/11yrend.pdf. Federal Home Loan Banks Office of Finance, "Combined Financial Condition," *Combined Financial Report for the Quarterly Period Ended September 30, 2012*, at 8. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/12Q3end.pdf.

Figure 8. Mortgage Bankers Association, *Multifamily Real Estate and Multifamily Real Estate Finance Markets Presentation* (June 2012).

Figure 9. Federal Reserve Bank of St. Louis, *1-Month London Interbank Offered Rate (LIBOR), Based on U.S. Dollar (USD1MTD156N)*. Accessed: April 11, 2013, at http://research.stlouisfed.org/fred2/series/USD1MTD156N. Federal Reserve Bank of St. Louis, *Graph: 1-Month Eurodollar Deposit Rate (London) (DED1)*. Accessed: April 11, 2013, at www.research.stlouisfed.org/fred2/graph/?id=DED1.

Figure 11. Government Accountability Office, "Management's Discussion and Analysis," *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2011 and 2010 Financial Statements*, GAO-12-161, at 17 (November 2011). Accessed: April 11, 2013, at http://gao.gov/assets/590/586278.pdf.

Figure 12. Inside Mortgage Finance, “Mortgage & Asset Securities Issuance,” *Mortgage Market Statistical Annual: Volume II: Secondary Market*, at 4 (2013).

Figure 13. Federal Housing Finance Agency, “Historical Data Tables,” *2011 Report to Congress*, at 72, 89 (June 13, 2012). Accessed: April 11, 2013, at www.fhfa.gov/webfiles/24009/FHFA_RepToCongr11_6_14_508.pdf. Fannie Mae, “Table 9: Summary of Consolidated Results of Operations,” *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 75. Accessed: April 11, 2013, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf. Freddie Mac, “Table 9 — Summary Consolidated Statements of Comprehensive Income,” *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 87. Accessed: April 11, 2013, at www.freddiemac.com/investors/er/pdf/10k_022813.pdf.

Figure 14. Fannie Mae, “Table 9: Summary of Consolidated Results of Operations,” “Table 13: Fair Value Losses, Net,” *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 75, 79. Accessed: April 11, 2013, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf. Freddie Mac, “Table 9 — Summary Consolidated Statements of Comprehensive Income,” *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 87. Accessed: April 11, 2013, at www.freddiemac.com/investors/er/pdf/10k_022813.pdf.

Figure 15. Standard & Poor’s, *S&P/Case-Shiller Home Price Indices, 20-City Composite, December 2012, Seasonally Adjusted*. Accessed: April 11, 2013, at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff–p-us—.

Figure 16. Federal Housing Finance Agency, “Table 1: Quarterly Draws on Treasury Commitments to Fannie Mae and Freddie Mac per the Senior Preferred Stock Purchase Agreements,” “Table 2: Dividends on Enterprise Draws from Treasury,” *Data as of March 29, 2013 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities*, at 2, 3. Accessed: April 11, 2013, at www.fhfa.gov/webfiles/25080/TSYSupport%202013-03-29.pdf.

Figure 17. Federal Home Loan Bank of Boston, *FHLB System*. Accessed: April 11, 2013, at www.fhlbboston.com/aboutus/thebank/06_01_04_fhlb_system.jsp.

Figure 18. Federal Home Loan Banks Office of Finance, “Combined Statement of Income,” *Combined Financial Report for the Year Ended December 31, 2012*, at F-4. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/12yrend.pdf. Other-than-temporary impairment losses can be referenced to Table 33, p. 60, in the Federal Home Loan Banks Office of Finance’s *Combined Financial Report for the Year Ended December 31, 2012*.

Figure 19. Federal Home Loan Banks Office of Finance, “Selected Financial Data,” *Combined Financial Report for the Year Ended December 31, 2011*, at 34. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/11yrend.pdf. Federal Home Loan Banks Office of Finance, “Selected Financial Data,” *Combined Financial Report for the Year Ended December 31, 2012*, at 35. Accessed: April 11, 2013, at www.fhlb-of.com/ofweb_userWeb/resources/12yrend.pdf.

Figure 20. Federal Housing Finance Agency, “Historical Data Tables,” *2011 Report to Congress*, at 75, 92 (June 13, 2012). Accessed: April 11, 2013, at www.fhfa.gov/webfiles/24009/FHFA_RepToCongr11_6_14_508.pdf. Department of the Treasury, *Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac* (August 17, 2012). Accessed: April 11, 2013, at www.treasury.gov/press-center/press-releases/Pages/tg1684.aspx.

Figure 21. Data provided by FHFA’s Division of Housing, Mission and Goals, Office of Policy, Research and Analysis, based on Fannie Mae and Freddie Mac data. The data represent the estimated average guarantee fees charged by the enterprises for single-family mortgages delivered from 2000 through June 30, 2012.

Figure 22. Data provided by FHFA’s Division of Housing, Mission and Goals, Office of Financial Analysis.

Appendix H: Endnotes

1 The Inspector General Act of 1978, 5 U.S.C. App. 3 § 5, requires that each inspector general compile a report of his or her office's operations for each six-month period ending March 31 and September 30.

2 Fannie Mae, *Fannie Mae Reports Largest Net Income in Company History; $17.2 Billion for 2012 and $7.6 Billion for Fourth Quarter 2012*, at 1 (April 2, 2013). Accessed: April 12, 2013, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/q42012_release.pdf.

3 Memorandum from Steve A. Linick, Inspector General, Federal Housing Finance Agency Office of Inspector General, to Edward J. DeMarco, Acting Director, Federal Housing Finance Agency, *Potential losses to Fannie Mae and Freddie Mac from LIBOR manipulation* (November 2, 2012). Accessed: March 13, 2013, at www.fhfaoig.gov/Content/Files/libor.pdf.

4 As a matter of policy, OIG notes that it has commented on an unpublished draft rule during the semiannual period when a comment is made, and then OIG discusses the substance of its comment in a later semiannual report once the rule is finalized and published.

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19 Freddie Mac, "Contracting the Dominant Presence of the GSEs in the Marketplace," *Form 10-K for the Fiscal Year Ended December 31, 2012*, at 8. Accessed: April 12, 2013, at www.freddiemac.com/investors/er/pdf/10k_022813.pdf.

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