

Federal Housing Finance Agency
Office of Inspector General



Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director

The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) received Hotline complaints alleging misconduct by the FHFA Director. OIG conducted an administrative inquiry into these allegations, and issued a report of administrative inquiry to the President of the United States, the Office of Government Ethics, and our Congressional oversight committees, pursuant to our responsibilities under the Inspector General Act of 1978, as amended (IG Act).

While this inquiry was open, FHFA-OIG was unable to release this report. FHFA-OIG has been advised that it is at liberty to release its report. Accordingly, we are publishing this report on our website, consistent with our obligations under the IG Act, 5 U.S.C. App., the Freedom of Information Act, 5 U.S.C. § 552, and the Privacy Act of 1974, 5 U.S.C. § 552a.



OIG-2019-001

November 29,
2018

Executive Summary

This is the second administrative inquiry conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations in anonymous hotline complaints claiming that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.

We first received anonymous hotline complaints in the summer of 2017 alleging that: (1) (b)(6);(b)(7)(C) inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; (2) (b)(6);(b)(7)(C) advised two senior FHFA employees “not to bother applying for the job”; and (3) the creation of a new executive position was inconsistent with FHFA’s prior buy-out. At the conclusion of our fact finding for that first administrative inquiry, in late March 2018, we formally referred the matter to the Office of Special Counsel (OSC) and provided the OSC with a summary of the facts found during that inquiry. On May 3, 2018, the OSC provided us with its preliminary determination that the record as it then existed did not support the allegations that the new executive position had been created improperly or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection for it. On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed the Agency that we had completed our administrative inquiry and planned to close it.

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s Office of Equal Employment Opportunity (EEO) alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims. FHFA contracted with the United States Postal Service (USPS) to gather facts and information regarding the PMO Manager’s sexual harassment claim. This fact gathering began on June 14, 2018.

On July 3, 2018, while fact gathering was ongoing, the PMO Manager used her FHFA computer and email address to forward to her counsel an email exchange she had with the contract investigator regarding her disparate treatment EEO claims. She also blind-copied this message to over 100 FHFA managers. The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not. Several minutes later,



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the PMO Manager re-forwarded that email message to her counsel and, once again, the FHFA managers. Attached to that re-forwarded message was an audio file containing a recording of a conversation between the PMO Manager and the FHFA Director, as well as three purported transcripts of other conversations between the PMO Manager and the FHFA Director which were prepared by the PMO Manager. Shortly thereafter, the PMO Manager sent a third email to the more than 100 FHFA managers that read “Sorry – this was sent in error – please disregard [sic].” The body of that email contained the same string of communications as the first two messages.

We were unaware of the PMO Manager’s sexual harassment claim against the Director during our first inquiry. We learned of it in July 2018, after we received three additional hotline complaints citing to the email messages and attachments sent by the PMO Manager. These three anonymous complaints alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager, (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). Our second inquiry, which began in July 2018, focused solely on possible misconduct by the FHFA Director, and this report sets forth our findings from that inquiry.

We requested and received information from FHFA and the PMO manager. We also served subpoenas on the FHFA Director and the PMO Manager; and we interviewed 20 witnesses, including the FHFA Director. Initially, counsel for the PMO Manager cooperated in our inquiry, and provided us with 6 audio recordings of conversations between the Director and the PMO Manager and a total of 8 transcripts of conversations between them, some of which were prepared by the PMO Manager. Thereafter, the PMO Manager declined to cooperate further. She refused to be interviewed by OIG, and she did not comply with FHFA’s request to return her government-issued cellphone. She also did not comply with an FHFA-OIG administrative subpoena for audio recordings she made of conversations with the FHFA Director and other materials, even after an Order from a United States District Court required her to do so.

The PMO Manager stated under oath in the USPS fact gathering process that she recorded every conversation she had with the FHFA Director from 2016 through 2018, and that twice a week she attended regularly scheduled senior staff meetings, which the Director also attended. Therefore, her statement



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leads us to believe that she may have additional recordings of conversations between her and the FHFA Director, which, despite our best efforts, we have been unable to secure.

The Inspector General Act of 1978, as amended, (IG Act) requires Inspectors General to timely report substantiated allegations of misconduct by senior agency officials. We have determined that the information we obtained during our administrative inquiry provides a sufficient basis to substantiate one allegation of misconduct by the FHFA Director and to give rise to a second finding of misconduct. Our two findings are:

The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

Section 702 of the Standards of Ethical Conduct for Employees of the Executive Branch (the Standards), 5 CFR § 2635.702, prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise. The FHFA Director is bound by the Standards. We found that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in a personal relationship with him by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

The FHFA Director advised the PMO Manager, and reported to us, that only he could approve the creation of a new executive position and the selection of a candidate to fill it. By his own design, he met alone in his apartment with the PMO Manager, a subordinate who the Director knew desired a promotion to an executive position in the Agency, and raised two possible opportunities for such a promotion. In a recording of a portion of their conversation in the FHFA Director's apartment, the FHFA Director can be heard to intermingle comments about his attraction to the PMO Manager and his admiration of her physical appearance with a discussion of possible paths by which she could advance into FHFA's executive ranks.

We find that there are no circumstances under which it would be appropriate for the head of FHFA to induce a subordinate employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.



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The FHFA Director Was Not Candid

Every agency employee providing information in an OIG inquiry, including the head of an agency, must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee's statement complete and accurate.

At the start of our interview with the FHFA Director on February 15, 2018, in connection with the initial administrative inquiry regarding these matters, we advised the Director that his interview was part of an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the Director lacked candor when he omitted information that was material to our inquiry. Specifically, he omitted: (1) any mention of his personal friendship with, and mentorship of, the PMO Manager; and (2) that he had a "plan," dating back to at least June 2016, under which the PMO Manager could advance into FHFA's executive ranks.

We provided a draft of this report to the FHFA Director; his November 26, 2018, written response (Response) is attached as the Appendix. The Director's Response is notable for what it does not contain. Nowhere does the FHFA Director deny that: (1) he invited a subordinate to meet with him alone, in his apartment; (2) during that meeting, he professed his physical attraction for that employee and held out opportunities for that employee to be promoted into specific executive positions; and (3) he knew this subordinate employee sought these executive positions over which he exercised total control.

Nor does the Director offer any evidence or assertions that contradict our findings. Rather, he claims that this report is incomplete because we lack the balance of the recordings made by the PMO Manager of her conversations with the Director. The Director states that the missing recordings would show that the PMO Manager, and not the Director, initiated most of the conversations. The Director, however, does not explain why that information would be exculpatory to a claim of misuse of government position for personal gain.

Lacking any exculpatory facts, the Director criticizes the inquiry that brought his misconduct to light. In particular, the Director alleges that: the report represents a "rush to judgment" so we could vindicate our independence and integrity; we improperly investigated a matter under Title VII and compromised FHFA's EEO process; our administrative inquiry was flawed; and we misled a federal court in our subpoena application. For the reasons set



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forth in this report, we flatly reject each of the process issues raised by the FHFA Director.

We follow the facts wherever they lead and we report the good and the bad. When our fact-finding identifies deficiencies in FHFA's programs and operations, shortcomings in FHFA's implementation of policies and guidance, inadequate internal controls, or wrongdoing by FHFA employees or senior executives of entities under FHFA's conservatorship, we report the evidence that demonstrates the deficiencies, shortcomings, or wrongdoing in accordance with professional standards. This inquiry and report were conducted in conformance with the Counsel of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Investigations* (2011) and the CIGIE *Quality Standards for Federal Offices of Inspector General* (2012). We stand by the integrity of our administrative inquiry and by our two findings.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. We are referring to the OSC the allegations about (b)(6);(b)(7)(C) for its review and determination and are providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

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ABBREVIATIONS

(b)(6);(b)(7)(C)

CIGIE	Council of the Inspectors General on Integrity and Efficiency
DGC	Deputy General Counsel
DOC	Division of Conservatorship
EEO	Equal Employment Opportunity
FHFA	Federal Housing Finance Agency
IG Act	Inspector General Act of 1978 (as amended)
PMO	Project Management Office
OCOO	Office of the Chief Operating Officer
OIG	Federal Housing Finance Agency Office of Inspector General
OMWI	Office of Minority and Women Inclusion
OQA	Office of Quality Assurance
OSC	U.S. Office of Special Counsel
The Standards	The Standards of Ethical Conduct for Employees of the Executive Branch
USPS	United States Postal Service

BACKGROUND.....

In the summer of 2017, the FHFA Office of Inspector General (OIG) received two anonymous hotline complaints which included allegations that: (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C) inappropriately created an executive position within OCOO for an FHFA employee, the PMO Manager;¹ (2) (b)(6);(b)(7)(C) advised two senior FHFA employees “not to bother applying for the job;” and (3) the creation of a new executive position was inconsistent with FHFA’s prior buyouts.

We forwarded the anonymous complaints to an FHFA Deputy General Counsel (DGC) and requested a response within 30 days.² On September 15, 2017, that DGC reported to us that (b)(6);(b)(7)(C) did not create a new executive position for the PMO Manager. According to that DGC, (b)(6);(b)(7)(C) recommended to the FHFA Director that a new position be created to oversee the management of the Office of Quality Assurance (OQA) and the Project Management Office (PMO). The OQA was located in the OCOO and the PMO was being relocated from the Division of Conservatorship (DOC) to the OCOO. The FHFA Director approved (b)(6);(b)(7)(C) recommendation, in writing, on July 14, 2017.³ The DGC advised us that FHFA had not advertised the opening for that new position, and that he intended to ask (b)(6);(b)(7)(C) to reconsider

¹ Her official position was Supervisory Management & Program Analyst. Within FHFA’s Division of Conservatorship and at the time (b)(6);(b)(7)(C) was considering whether to create a new executive position within OCOO, her title was Senior Advisor and PMO Manager.

² At page 2 of his Response, the FHFA Director claims that “the FHFA-OIG was intimately involved in delaying [the PMO Manager’s] being able to compete for a position of advancement within FHFA and in the delays that ultimately led her to file an EEO complaint against FHFA,” and OIG “made it impossible for FHFA to advance [the PMO Manager] within FHFA from the summer of 2017 until May of 2018, because [OIG] dragged its feet on an investigation that could and should have been completed long before it was.”

As explained above, it was not possible for the PMO Manager to apply for this executive position in the summer of 2017, because the position had not yet been announced. Moreover, OIG promptly forwarded the first two hotline complaints it received in the summer of 2017 to a DGC and requested a response within 30 days. The DGC reported that the FHFA Director had approved the creation of a new executive position, but the new vacancy had not been announced and that he intended to ask (b)(6);(b)(7)(C) to reconsider filling that position. Until a position description had been drafted and the vacancy announcement posted, there was no claim to investigate.

Contrary to the assertion of the FHFA Director, FHFA could not “advance” her into an executive position until she competed and was selected for such a position because she was not an executive, and the newly created executive vacancy was first announced on November 20, 2017. OIG commenced its first administrative inquiry in January 2018, and completed its fact-finding in less than three months. By any measure, a three-month inquiry, in which more than 12 witnesses were interviewed and numerous FHFA documents were obtained and reviewed, is not “foot dragging.”

³ The DGC further reported that (b)(6);(b)(7)(C) denied “discourag[ing] FHFA employees from applying” for the position, and he credited that denial.

filling that position. He subsequently reported that (b)(6);(b)(7)(C) intended to advertise the position and fill it.

On November 20, 2017, FHFA posted a job announcement for the new executive position, which was open only to FHFA employees and only for two weeks. On November 27, 2017, the DGC agreed to notify us before FHFA offered the new executive position to anyone.

OIG's First Administrative Inquiry

We received three additional anonymous hotline complaints concerning the new executive position, after it was posted.

From January to March 2018, we conducted an administrative inquiry into the five hotline complaints, all of which were directed at the Agency and (b)(6);(b)(7)(C). None of the allegations suggested an improper relationship between the PMO Manager and the Director.⁴ In the course of our inquiry, we reviewed relevant Agency documents and interviewed 12 witnesses, including the FHFA Director and the PMO Manager. In January 2018, we requested that FHFA place a “legal hold” on the position, pending the outcome of our inquiry into the allegations in the hotline complaints, to which FHFA agreed.⁵

Interview of the FHFA Director

The FHFA Director was interviewed on February 15, 2018. He reported that, several years ago, he determined to retain sole authority to approve the creation of all executive positions within FHFA because he wanted to have the appropriate number of executives in the agency. He further explained that, pursuant to a directive issued by President Trump, each agency had to consider whether any vacant executive position could be eliminated and must justify the creation of any

⁴ This inquiry was conducted by career law enforcement personnel and career investigative counsel.

⁵ In January 2018, a panel concluded interviews of the candidates for the new executive position and determined that the PMO Manager was the most qualified candidate.

At page 2 of his Response, the FHFA Director contends that FHFA-OIG breached the confidentiality of the PMO Manager when it communicated to him that the panel had unanimously selected the PMO Manager for the new position. His assertion is incorrect.

The fact that the panel had unanimously selected the PMO Manager was not tightly-held. In late January 2018, the DGC informed FHFA-OIG that the panel had selected the PMO Manager. However, he did not advise that this selection was to be held in confidence. Indeed, the Chief of Staff to the FHFA Director, who was not a member of the panel, learned about the selection when she inquired about the result of the interview process for the position. She stated, in her signed declaration to the USPS contract investigator, that she assumed the PMO Manager's selection was rolled into the transfer of the PMO to the OCOO (which occurred in January 2018), and congratulated the PMO Manager on her selection. In sum, the PMO Manager had no privacy right that was violated when we reported the panel's selection recommendation to the FHFA Director.

new executive position. According to the Director, he had to be satisfied that any new executive would increase the Agency's efficiency.⁶ He stated that a number of FHFA employees, including the PMO Manager, expressed frustration that promotions to executive positions were available only through attrition because FHFA was "top-heavy."

The FHFA Director explained that beginning in 2016, there was a consensus among FHFA senior executives to transfer the PMO from DOC to OCOO, and that this transfer was a priority for 2017. However, he maintained that the allegation that (b)(6);(b)(7)(C) lobbied to create a new executive to manage the PMO for a specific employee was untrue. He denied both that he approved the creation of the new executive position in OCOO expressly for the PMO Manager and that the PMO Manager lobbied him directly to create an executive position for her.

The FHFA Director explained that he also retained sole authority to select a candidate to fill an executive vacancy. He stated that he usually followed recommendations made by his subordinates in selecting individuals to fill executive positions. He told us that he was unaware of the employees who applied for the new executive position and did not know the recommendation from the panel.

The FHFA Director acknowledged that, during his tenure, he spoke to a number of FHFA employees about the PMO Manager's abilities, but not specifically about whether she should be made an executive. According to the Director, FHFA has a number of talented employees, including the PMO Manager. In his view, the PMO Manager had great experience handling FHFA's relationship with Fannie Mae and Freddie Mac and standing up DOC. He noted that the PMO Manager was a trusted lieutenant to the former Deputy Director of DOC, prior to her retirement, and that this former Deputy Director had spoken highly about the PMO Manager.

During this interview, the FHFA Director made no mention that he had previously discussed possible executive opportunities with the PMO Manager in private conversations and had a mentoring relationship with her.

⁶ In effect at the time that the FHFA Director approved (b)(6);(b)(7)(C) recommendation to create a new executive position was FHFA's Order No. 4, "Delegation of Authority to Approve Personnel Actions, Determinations, and Requests," which was issued by the previous FHFA Director on January 5, 2009. Under that order, the FHFA Director retained the authority to approve requests for executive positions. The current FHFA Director explicitly retained that authority when he replaced Order No. 4 with Order No. 4, Amendment No. 4 on September 15, 2017. In addition, on February 10, 2017, the FHFA Director sent a memorandum to all FHFA executive staff requiring them to "make a compelling case" for any new position and the need to fill it in response to the "Presidential Memorandum Regarding the Hiring Freeze," issued by the President on January 23, 2017.

Interview of the PMO Manager

The PMO Manager was interviewed on March 16, 2018. She explained that senior FHFA executives recommended and implemented the reorganization that moved the PMO to OCOO. The PMO Manager reported that she never heard that (b)(6);(b)(7)(C) had discouraged employees from applying for the new executive position or that he favored any applicant. She denied that (b)(6);(b)(7)(C) told her that he had a preferred candidate for the position; she had been told in advance of the selection process that she would be selected for the new executive position; or she was the preferred candidate for it.⁷

⁷ Three days after this interview, on March 19, 2018, the PMO Manager filed a whistleblower complaint with FHFA-OIG and asked for anonymity. Her complaint made two allegations. First, she alleged that FHFA officials misused the OIG hotline and filed false claims in order to perpetuate discrimination in the FHFA workforce. Second, she alleged her rights under Title VII of the Civil Rights Act of 1964 (as amended) were violated when she was discriminated against on the basis of sex and race. She did not make any allegations against the FHFA Director.

At page 2 of his Response, the FHFA Director claims that OIG created an actual or apparent conflict of interest that precluded it from investigating his misconduct when OIG alerted him to the fact that the Agency's EEO office declined to accept for filing the PMO Manager's EEO claim. The Director's claim is erroneous, both as a matter of fact and law.

By letter dated March 27, 2018, the then-Deputy Inspector General for the Office of Investigation in FHFA-OIG recommended, in writing, to then-counsel for the PMO Manager that the PMO Manager bring her Title VII claims to the attention of FHFA's EEO office. A senior investigative counsel in FHFA-OIG underscored that recommendation in an email April 18, 2018, "we believe that the FHFA EEO Office should promptly and fully investigate [the EEO] matter in the first instance."

By early April 2018, the PMO Manager had disclosed both her identity and her Title VII claims to FHFA officials. An April 4, 2018, letter from then-counsel to the PMO manager reported that FHFA's EEO office had advised the PMO Manager that she could not pursue EEO counseling unless she could identify the individuals who discriminated against her. FHFA documents show that the PMO Manager raised her Title VII claims to (b)(6);(b)(7)(C) a senior FHFA official, orally and in writing; (b)(6);(b)(7)(C) drafted a response, which was vetted by lawyers in FHFA's Office of Counsel, and that response was sent to the PMO Manager; (b)(6);(b)(7)(C) forwarded the PMO Manager's claims to FHFA's Office of Minority and Women Inclusion (OMWI) and to FHFA's EEO office, located within OMWI; and an OMWI official then provided the PMO Manager with an EEO intake form and spoke with her about filing an informal EEO complaint.

FHFA-OIG had a reasonable, good faith belief that the PMO Manager had voluntarily revealed both her identity and the same Title VII claims raised in her hotline complaint to senior officials in FHFA in April 2018. Pursuant to Section 4(a)(5) of the IG Act of 1978, as amended, FHFA-OIG has both the duty and responsibility to bring to the FHFA Director's attention the fact that the Agency's EEO function had turned away the PMO Manager's Title VII claims. The Inspector General fulfilled that responsibility when she provided this information to the FHFA Director on April 25, 2018.

The Inspector General has publicly explained the reasons for her disclosures to the House Financial Services Committee on September 27, 2018:

We got a letter from her then-counsel on April 4, saying the EEO office, FHFA had rejected her claim. I was quite concerned about that because these are EEO issues, they facially sounded quite intensely serious to me. EEO has a pretty short timeline. I felt that appropriate for the EEO office to deal with it. [The PMO Manager] had already identified herself and her complaint to the EEO office.

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OIG Refers to the Office of Special Counsel the Evidentiary Record of its Administrative Inquiry, and OSC Reaches a Decision on the Matter

Congress established the OSC as an independent federal investigative agency, the primary mission of which is “to protect[] federal employees and applicants from prohibited personnel practices.” Therefore, we concluded the OSC was the appropriate entity to determine whether a prohibited personnel practice, had occurred regarding the creation of or selection for the new executive position.

We spoke with OSC officials during the inquiry to alert them that we intended to refer the matter to the OSC at the conclusion of our fact finding and formally referred the matter to OSC on March 22, 2018. The OSC accepted our referral, and on April 2, 2018, we provided the OSC with a summary of the facts found during our administrative inquiry, including documents provided by FHFA. On April 5, 2018, we met with OSC attorneys. The fact finding for our administrative inquiry was complete at that time.

By letter dated May 3, 2018, the OSC reported to us that it had reached a preliminary determination that the record as it then existed did not support the allegations that the new executive position was improperly created, or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection by the panel.

On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed it that we had completed our administrative inquiry and planned to close the inquiry.

FHFA advised us that, as of November 28, 2018, the position remained vacant.

FHFA’s Investigation of the PMO Manager’s EEO Complaint

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s EEO office, alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of

What I said to [the FHFA] Director [] was very simple. We’ve gotten a complaint, that complaint is from [the PMO Manager] who previously made it to the EEO office which rejected it and – and frankly, sir, you need to do your job and tell the EEO office [to process the complaint]. It wasn’t until

July that anyone in my office became aware of any claims of sexual harassment, which had nothing to do with our prior work.

Even assuming that the PMO Manager had some anonymity to protect, which she did not, Section 7(b) of the Inspector General Act, as amended, required the Inspector General to disclose the identity of the PMO Manager to the FHFA Director without her consent because she determined that such disclosure would be “unavoidable during the course of the investigation.” In sum, compliance with the IG Act does not create an actual or apparent conflict of interest, notwithstanding the Director’s assertion.

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1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims.

As part of her harassment claim the PMO Manager alleged that:

Information withheld because allegations are outside the scope of FHFA-OIG's investigation.

(b)(6);(b)(7)(C)

FHFA contracted with the USPS to gather facts and other information related to the PMO Manager's Title VII sexual harassment claim. The fact gathering, which began on June 14, 2018, included obtaining sworn statements, portions of audio recordings the PMO Manager chose to produce, and unofficial "transcripts" prepared by the PMO Manager.⁸

On July 3, 2018, while the fact gathering process was underway, the PMO Manager used her FHFA computer and email address to forward to her personal counsel an email exchange she had with the USPS contract investigator.⁹ She also blind-copied over 100 FHFA managers.¹⁰ The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not.

Several minutes later, the PMO Manager re-sent that email message to her counsel and, once again, blind-copied the same group of FHFA managers. Attached to that message was a file named "Watt Employment Charade Process" containing an audio recording of a portion of a conversation between the PMO Manager and the FHFA Director. Also attached were three purported transcripts of recorded conversations between the PMO Manager and the FHFA

⁸ The report by the USPS contract investigator did not contain findings of fact and conclusions of law, and did not address the allegations of misconduct by the FHFA Director that are the subject of this report.

⁹ Any FHFA employee who seeks to access FHFA servers, whether through a government-provided computer, laptop, or personal computer, must first agree to terms and conditions in which the employee acknowledges no expectation of privacy.

¹⁰ The PMO Manager blind copied her first two messages to an FHFA email list, called "2018 Managers Conference," which included more than 100 FHFA managers.

Director which the PMO Manager labeled, “Four Types Attraction,” “Tattoo,” and “Why Have You Rejected My Advances.”¹¹

Shortly thereafter, the PMO Manager sent a third message to the same group of FHFA managers that read, “Sorry – this was sent in error – please disregard [sic].” The three purported transcripts and the recorded conversation were, once again, appended to the message.

OIG’s Second Administrative Inquiry

We first learned of the PMO Manager’s sexual harassment claim against the Director in July 2018, when we received three additional hotline complaints citing to the email messages and attachments sent by the PMO Manager. These complaints alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager, (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work).¹² This inquiry focused solely on possible misconduct by the FHFA Director¹³ and was expressly authorized by the IG Act, as amended, which vests us with authority to investigate possible waste, fraud, and abuse in the operations and programs of FHFA and by FHFA officials. Contrary to the Director’s assertion, this inquiry proceeded separately from the Agency’s investigation into the PMO

¹¹ These were not actually transcripts, although they have the outward trappings of transcripts. Each of these three purported transcripts appeared to be produced by a certified transcription company because: each contained introductory pages labeled, “Transcript of Recorded Conversation;” each had a job number and the name of a court reporter who worked for the transcription company and provided the transcription; and each included a signed certification by the named court reporter, under penalty of perjury, that the transcript was a “full, true and correct transcription” of the recording.

We learned subsequently, from the USPS contract investigator’s report, that these three purported transcripts were created by the PMO Manager in 2018 from her recollections of 2016 conversations, using a “template” of a transcript from the transcription company. As we explain later in this report, the PMO Manager declined to provide either to the USPS contract investigator or to us the recordings of these conversations that these “transcripts” purported to document. Therefore, we treated each of these purported transcripts as the PMO Manager’s 2018 recollections of conversations that took place during 2016.

¹² The field work for this inquiry was conducted by career government attorneys who serve as senior executives in OIG.

¹³ As we advised counsel for the PMO Manager in March and April 2018, and the FHFA Director, jurisdiction for the Title VII claim raised by the PMO Manager rests initially with FHFA and then with the Equal Employment Opportunity Commission.

Manager's EEO claims and did not compromise or supplant that investigation. We conducted this inquiry in conformance with the *Quality Standards for Investigations* promulgated by CIGIE, and with CIGIE *Quality Standards for Federal Offices of Inspector General*.

As we did before, we are referring to the OSC the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)¹⁴

OIG's Efforts to Obtain Audio Recordings, Transcripts, and Other Documents

FHFA provided us with the July 3, 2018, emails and attachments sent by the PMO Manager to her counsel and the FHFA managers. Thereafter, we sent requests for information to FHFA, and to the FHFA Director and the PMO Manager, through their respective counsel. FHFA provided responsive documents. The PMO Manager's counsel sent us six recordings made by her client of conversations with the FHFA Director:

- one recording of a conversation that occurred purportedly on June 17, 2016;
- three recordings of portions of a conversation on November 11, 2016;
- a duplicate of one of the November 11, 2016, recordings; and
- one recording of a phone conversation that occurred on May 10, 2018.

After listening to those recordings, which appeared to stop and start during the conversations being recorded, we concluded that none was a complete record.

The PMO Manager's counsel also produced:

- transcripts of the June 17, 2016,¹⁵ and the three November 11, 2016, recordings, identified above;
- a transcript of a conversation with the FHFA Director that occurred purportedly on March 13, 2018 (but no recording for that conversation); and

¹⁴ In the draft report we provided to the FHFA Director for his response, we referred to an Appendix A, which set forth a summary of the facts concerning the creation of the new executive position within OCOO. Because (b)(6);(b)(7)(C) related to the creation of the executive position within OCOO is ongoing, we have not included Appendix A as part of this final report. Once OSC completes its review, we will report OSC's determination in our Semi-Annual Report as required under Sections 5(a)(19) and 5(a)(22)(B) of the IG Act.

¹⁵ The transcript of the conversation is dated June 17, 2016. However, the FHFA Director testified that the dinner meeting occurred on June 8, 2016, which was confirmed by the charge on his credit card statement. For purposes of this report, we refer to the recording of that meeting, and transcript, as June 17, 2016.

- three unofficial “transcripts” prepared by the PMO Manager of other conversations with the FHFA Director that occurred purportedly in 2016, which were substantially similar to the purported transcripts sent by the PMO Manager on July 3, 2018 (but no recordings for those conversations).

We also received from the USPS contract investigator, through FHFA, a recording of a phone conversation that occurred on May 8, 2018, between the PMO Manager and the FHFA Director.

To ensure that all materials, including recordings, relevant to our administrative inquiry were produced by the FHFA Director and the PMO Manager, we issued separate administrative subpoenas to them on July 18, 2018.¹⁶ Counsel for the FHFA Director and for the PMO Manager accepted service of the subpoenas.¹⁷

On July 27, 2018, the FHFA Director produced responsive materials. Counsel for the PMO Manager assured us that the PMO Manager would cooperate, and expressly authorized us to travel to the PMO Manager’s residence to retrieve from her copies of her audio recordings of conversations with the FHFA Director. That counsel asked for technological assistance to transfer all audio recordings to an encrypted flash drive and explained that such technological assistance was “the only impediment to the production” of the recordings. We agreed to provide that assistance.

From July 24, 2018, to the issuance of this report, the PMO Manager did not cooperate in our inquiry, although we advised her, both orally and in writing, that our inquiry focused solely on allegations of misconduct by the FHFA Director, for which she was only a witness. We asked FHFA to provide to us the government cell phone issued to the PMO Manager because the PMO Manager said she used it to record conversations with the FHFA Director. The Agency asked the PMO Manager to return that phone. The USPS contract investigator’s report stated that the PMO Manager recounted that she had taken the government cell phone issued to her to a third party “data recovery provider who was able to recover data from [her] work phone.” However, the PMO Manager declined to return this FHFA-issued government cell phone to FHFA.

After the PMO Manager refused to comply with our administrative subpoena, we sought the assistance of the Office of the US Attorney for the Eastern District of Virginia to file a petition with the Court to enforce the subpoena. At that time, our second administrative inquiry was

¹⁶ Neither the PMO Manager nor her counsel provided to us any recordings of conversations between January 1, 2016, and June 7, 2016; between June 9, 2016, and November 10, 2016; and between November 12, 2016, and May 9, 2018.

¹⁷ Upon the receipt of the subpoenas, neither counsel questioned the independence of this administrative inquiry, challenged the subpoena as issued for an improper purpose (such as harassment, intimidation, or retaliation), or claimed that we lacked authority to issue it.

approximately one month old, and we believed that the information sought from the PMO was essential to our ability to conduct the inquiry.

The PMO Manager stated in her signed declaration to the USPS contract investigator, dated August 8, 2018, that “there were two regular weekly [senior staff] meetings that [she] attended with the Director...” and that she “recorded all conversations with [the FHFA Director] from 2016 to present.” Her statement led us to believe that she may have additional recordings of her conversations with the FHFA Director. To the best of our knowledge, the PMO Manager was, and remains, the sole source for these additional recordings. Despite our best efforts, we have been unable to secure those recordings.

At pages 3, 4, and 6 of his Response, the FHFA Director seizes on representations in our moving papers to claim that we have demonstrated “an apparent willingness to have the Justice Department deceive the United States District Court” because we reached two findings without obtaining the recordings sought in the subpoena.

Once again, the Director’s claim has no factual basis. On October 5, 2018, after a full round of briefings and a hearing, the judge ordered the PMO Manager to produce all materials sought by the subpoena. On October 15, 2018, the PMO Manager appealed to the United States Court of Appeals for the Fourth Circuit. While we recognized that this litigation could lead us to obtain the materials in the possession of the PMO Manager, we were mindful that such litigation could take many months to resolve. Moreover, the IG Act requires us to timely report substantiated allegations of misconduct by senior agency officials. We determined, after close review of the information obtained during our second administrative inquiry, that the information we had acquired to date was sufficient to substantiate misconduct by the FHFA Director. It is the statutory mandate that creates the exigency of time, and not, as the Director suggests the expiration of his term on January 6, 2018.

We conveyed this analysis to the Office of the US Attorney for the Eastern District of Virginia and an agreement was reached with counsel for the PMO Manager to dismiss her appeal. Together, the parties sought to dismiss the subpoena enforcement action, which was approved by the Court on November 1, 2018. In dismissing this action, the Court raised no concerns about the legitimate basis either for the petition or the dismissal.

Review of Audio Recordings

Audio recordings provide contemporaneous evidence of statements made by the FHFA Director to the PMO Manager. As we have explained, we obtained, from counsel for the PMO Manager and from the USPS contract investigator (through FHFA), recordings made by the PMO Manager of portions of four conversations with the FHFA Director, two of which

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occurred after the executive position was created and the PMO Manager was selected by the panel to fill it. We caused transcripts to be made for each of these recordings.¹⁸ Two of these recordings, from conversations between the PMO Manager and the Director in June and November 2016, are relevant to this inquiry.

The June 17, 2016, Recording:

The FHFA Director confirmed that he and the PMO Manager met for dinner at the Rosa Mexicano restaurant in June 2016 and that this dinner was one of two meals that they shared off-site and alone. The portion of the recording produced to us begins in the middle of a conversation that purportedly occurred in June 2016 in a restaurant, with the PMO Manager asking the FHFA Director when the (b)(6);(b)(7)(C) position, which is an executive position, would become vacant. The FHFA Director responded, “I don’t know what the timing is. [The (b)(6);(b)(7)(C) wouldn’t be surprised if it was sooner rather than later.” At a subsequent point in the recording, the Director suggested that the Chief of Staff position, an executive position, would become vacant after his current Chief of Staff moved to a different position.

The Director asked the PMO Manager: “What do you want, not just limited to the things I’ve laid out, what do you want to do?” She responded: “I think I’ve definitely been looking for kind of, you know, an expansion in role. The chief of staff is ideal, but that’d be up to you, I guess.” The FHFA Director explained that his term was limited to five years, which would be “a downside to having the chief of staff position” because “it doesn’t necessarily carry over” and is “a discretionary position.” The PMO Manager replied, “I don’t think I’m going to stay at FHFA for the rest of my life” and “I think I can find other places.” The FHFA Director concurred: “And being chief of staff to me would position you for a lot of places.”

The November 11, 2016, Recording:

The FHFA Director confirmed that it is his voice on this recording of a conversation with the PMO Manager and that this conversation took place in his apartment in November 2016. Text messages between the FHFA Director and the PMO Manager sent and received from his

¹⁸ The PMO Manager declined to produce recordings for three conversations she had with the FHFA Director during 2016 for which she created three unofficial “transcripts,” one version of which was attached to her July 3, 2018, email. The report of the USPS contract investigator recounted what the PMO Manager told the investigator: the PMO Manager used a template from a transcription service company to create unofficial “transcripts” of her recollections of these three 2016 conversations; at her request, a third party data recovery service provider recovered data from a government cell phone issued to her; after the third-party data recovery provider recovered data from that government issued cell phone, the PMO Manager listened to recordings that she thought had been erased; she compared the recordings to her unofficial “transcripts” created from her memory; she found that the recordings were “consistent with minor deviations”; she “modified” her unofficial “transcripts” to “match the recordings”; she provided those modified unofficial “transcripts” to the contract investigator; and she did not make the recordings available to that investigator.

private cell phone during the period November 4-11, 2016, show that the Director first invited the PMO Manager to his apartment over the weekend of November 12-13, 2016, and that she agreed to meet with him on November 11, a federal holiday.¹⁹

At pages 10-11 of his Response, the Director maintains that we have “chosen to ignore” a text message in order to reach the “disingenuous” conclusion that he induced the PMO Manager to come to his apartment. After the FHFA Director and PMO Manager, agreed by text, to meet on Friday, November 11, 2016 (which are set forth in footnote 19), the PMO Manager proposed in a text that the two meet, “at 1,” to which the Director responded, “You can let me know where,” and the PMO Manager replied, “What works for you?” In other words, the PMO Manager left it to the FHFA Director to select a meeting place – and he selected his apartment. The partial recording of the November 11, 2016 conversation between the PMO Manager and the Director underscores that the meeting place was chosen by the Director. In that recording, the Director stated, “I think you finally came – you finally came to the conclusion that I did, that this is the safest place to do this, to have this conversation. It would be the safest place to – if it were going beyond this conversation. But I think you were concerned that I was luring you here for other reasons.”

This recording begins in the middle of a conversation in which the FHFA Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. The FHFA Director characterized the former as “our original plan” which was “to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” The Director then explained to the PMO Manager that this option “wouldn’t have been a good idea anyway. Because the chief of staff is a position that basically whether you are career or whether you are schedule C, it’s generally going to change when the new director comes in.” He explained further that, in the event his successor chose a different chief of staff, she could “bump back” to her current position or to another position in the Agency equivalent to the one she left.

The FHFA Director continued that he was “not sure” that (b)(6);(b)(7)(C) (b)(6);(b)(7)(C) In the event (b)(6);(b)(7)(C) decided to return to his position (b)(6);(b)(7)(C) he could

¹⁹ In these texts, the FHFA Director sought to have the PMO Manager visit him for a longer period of time than she was willing. The PMO Manager texted, “I have a few hours tomorrow [between 1 and 3],” to which the Director responds, “Do [yo]u have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a ‘few’ hours?” The PMO Manager replies, “Lol It’s a lot for me.” The Director then texted, “Sat or Sun or is my option only the ‘few’ hours between 1 & 3 tom[orrow]?” The PMO Manager replied, “Yes Friday.” On her way to his apartment on November 11, 2016, the PMO Manager texted, “About 30 mins out,” and the Director responds, “The ‘few’ gets shorter.”

“take his position back” which was the reason that FHFA could not fill that position, even though the Director acknowledged that the PMO Manager was “doing a lot of the responsibilities that go with” that position.

The PMO Manager expressed her appreciation to the FHFA Director for “putting some thought into it and sharing that with me,” and stated that “I think I would be qualified for either position...” She then said, “I just need to make sure that I feel clear and confident that this is just going to be based on merit and fitness for the position, and that there’s nothing else.”

The FHFA Director replied that he “intended to address that first.” He then told the PMO Manager he thought she was “gorgeous” but he did not “make agency decisions based on who’s gorgeous and who’s not.” He maintained that he had “gone out of [his] way to get this – get our friendship. . . – or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” He reported to the PMO Manager that “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That is true.”

The Director acknowledged that he had “tried to accept what you told me, the first time you told me. And that’s fine. I accept it. I know I can draw the line.” After repeating four times that he could “draw the line,” the FHFA Director added, “[m]uch to my disappointment...”

The FHFA Director then asked the PMO Manager, “How are you feeling? What are you feeling?” and she responded, “I think I’ve definitely had concerns with – well definitely with coming here.” Even though he professed to know where to draw the line, he again remarked that his apartment was the “safest place to do this, to have this conversation” and that “[i]t would be the safest place to – if it were going beyond this conversation.”

Interviews and Sworn Testimony

Between July 9, 2018, and October 18, 2018, we interviewed 20 witnesses – some on multiple occasions. Counsel for the PMO Manager did not respond to two written requests by us for an interview with the PMO Manager. A summary of two of these interviews follows.

Interview of the FHFA Director

On October 11, 2018, we interviewed the FHFA Director under oath, using a court reporter to transcribe the interview.²⁰ He confirmed that he met the PMO Manager alone in his

²⁰ The FHFA Director was represented by counsel at this interview.

apartment in November 2016, and that it is his voice on the recording of a portion of his conversation with the PMO Manager, provided to us by the PMO Manager's counsel.

He testified that he is the only executive in FHFA authorized to approve the creation of a new executive position, and that FHFA remains "top-heavy" with executives, despite his approval of an executive buy-out which the Agency conducted in 2014.²¹ The FHFA Director stated that he recognized that circumstances might require him to approve a request to create a new executive position. However, he would do so only if such a request was supported by a "compelling case" based upon "substantial documentation and support." The Director established this standard in a February 10, 2017, memorandum he sent to FHFA executives following the issuance of the "Presidential Memorandum Regarding the Hiring Freeze" by the White House on January 23, 2017.

The FHFA Director also testified that he has been the PMO Manager's friend and mentor since at least 2016,²² and that he met her alone outside of the FHFA workplace on four occasions in 2016: at a restaurant; at a night club; in Rock Creek Park; and at his apartment in Washington, D.C.²³ Although he testified that he has mentored a great many individuals, he could not recall a female mentee other than the PMO Manager whom he invited to his private residence in DC.²⁴

The FHFA Director stated that the PMO Manager made it clear to him on multiple occasions that she wanted to be an executive in the agency. He added that "it was general knowledge that [the PMO Manager] was one of the people in the agency who had – who had good skills and should be considered if an executive level position ever got created."

He testified that he assumed the PMO Manager would apply for the new executive position in OCOO when he approved the creation of it. He also confirmed that one of the options he considered for the PMO Manager was the "original plan" to bring her into the Chief of Staff's office that "would've put [her] in line" to become chief of staff. He did not dispute that he discussed the chief of staff and COO positions with the PMO Manager, but thought he never

²¹ In 2014, the Director approved a buyout of 12 FHFA executives at a cost of about \$1.45 million.

²² The FHFA Director testified that he became the PMO Manager's mentor when she started coming to him for advice after his first meeting with her to discuss the PMO in 2015.

²³ The FHFA Director also recalled meeting her at a restaurant in 2015.

²⁴ He recalled that a FHFA female IT technician came to his apartment "to set up [his] home computing capabilities with the office" but that he was not in "an ongoing mentoring relationship" with her. He stated that this technician had since retired. During his October 11, 2018, deposition, the Director confirmed that, other than the female IT technician and the PMO Manager, no other female mentees visited his apartment in Washington, D.C.

discussed with her the impediments to her if she competed for the COO position. He explained those impediments to us: if the PMO Manager, who was a grade below an executive, “was competing for the [COO’s] position, there would probably be multiple existing executives who would want that position... And so no way a level 15 probably was going to get that job....”

Interview of (b)(6);(b)(7)(C)

We interviewed (b)(6);(b)(7)(C) on October 10, 2018, under oath and before a court reporter who transcribed the interview.²⁵ (b)(6);(b)(7)(C) testified that he was “transparent” with the PMO Manager and the OQA Manager, and discussed options by which to manage the PMO and OQA, including an option to create a new executive position and an option to place the PMO under an existing executive.

(b)(6);(b)(7)(C) recalled that the PMO Manager reacted negatively to his consideration of an option other than the creation of a new executive position and became upset. Further, she advised that she was “going to go talk to the Director about that.” (b)(6);(b)(7)(C) recalled that he warned the Director about this development and that the Director responded that the PMO Manager had already spoken with him and that he had told the PMO Manager that the decision was up to (b)(6);(b)(7)(C).²⁶

FINDINGS

As discussed, we recognize the likelihood that the PMO Manager has additional recordings of her conversations with the FHFA Director which the PMO Manager has not produced in response to our information request, subpoena, and a Court Order. To the best of our knowledge, the PMO Manager was, and remains, the sole source for these additional recordings. However, based on our review of the identified recordings, documents, and information learned during our interviews, we have determined that we have a sufficient basis on which to reach two findings of misconduct by the FHFA Director.

²⁵ (b)(6);(b)(7)(C) was represented by counsel at this interview.

²⁶ When asked whether (b)(6);(b)(7)(C) reported the PMO Manager would complain to the FHFA Director if (b)(6);(b)(7)(C) did not recommend creation of a new position, the FHFA Director answered: “He definitely didn’t tell me that because I would have remembered that.” He did not recall whether the PMO Manager came to see him after she thought (b)(6);(b)(7)(C) might not recommend creation of such a position.

1. The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

The Standards establish a code of conduct applicable to all officials and employees of the federal executive agencies. At all times relevant to our inquiry, the FHFA Director was subject to the Standards.

Section 702 of the Standards prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise.

For the reasons set forth below, we find that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing “friendship” and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position within FHFA.

The recording of the Director’s conversation with the PMO Manager on November 11, 2016, establishes that the Director, not the PMO Manager, went “out of [his] way to get this – get our friendship. . . – or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” The PMO Manager made clear in the recording that this off-site, on one meeting at his apartment made her uncomfortable: “I think I’ve definitely had concerns with – well, definitely with coming here.”

The Director explained his personal interest in the PMO Manager: “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That’s true.” He went on to say that he had “tried to accept what you told me, the first time you told me,” and was “comfortable with drawing the line where you told me I needed to draw it. So I’ve drawn that line [] [m]uch to my disappointment.” He stated that his apartment was the “safest place...to have this conversation” and that “[i]t would be the safest place to – if it were going beyond this conversation.”

The Director continued his discussion of the two executive position options for the PMO Manager, that of Chief of Staff and COO. He had also raised the option of the Chief of Staff position in the recorded conversation with the PMO Manager during the Rosa Mexicano dinner in June 2016. The PMO Manager responded that she thought she would “be qualified for either position,” and asked the FHFA Director to assure her that any promotion “is just going to be based on merit and fitness for the position, and that there’s nothing else.” The FHFA Director responded that he thought she was “gorgeous” but didn’t “make agency decisions based on who’s gorgeous and who’s not.” He asserted that his discussion with the

PMO Manager about two executive positions “has nothing to do with either your beauty or your – or my feelings. But that doesn’t eliminate the feelings or the beauty.”

The Director sought to get the PMO Manager to agree with his perspective about the need to meet, alone, at his apartment:

But you understand I think you finally came – you finally came to the conclusion that I did, that this is the safest place to do this, to have this conversation. It would be the safest place to – if it were going beyond this conversation. But I think you were concerned that I was luring you here for other reasons. I wasn’t concerned about that.

He added that his apartment was “just a safer place to have a conversation” for the PMO Manager because she would otherwise have exposure “sitting in a restaurant, going to Blues Alley, anywhere out in the public” because he was “so well known.”

During his sworn interview, the FHFA Director sought to cast these remarks in an innocent light. According to the Director, he did not have a romantic attraction to the PMO Manager. He testified that the PMO Manager “started to make periodic visits to [his] office, during which [they] would discuss work and non-work topics. The increased frequency of those visits” and the “odd times at which they – the visits started to occur raised [his] suspicions that [the PMO Manager] could be developing an attraction to [him] that would be inappropriate for either an employer/employee relationship or a friendship or a mentor/mentee relationship.” For that reason, he explained that he “requested an off-site meeting with [the PMO Manager] after work hours for the specific purpose of addressing and hopefully eliminating [his] suspicions about [her] intentions” and this meeting occurred at Rosa Mexicano in June 2016.

The FHFA Director volunteered that, while en route to Rosa Mexicano, he mentioned to the PMO Manager that there was an attraction between them that needed to be explored so that he could ascertain the PMO Manager’s reaction. She “denied that she had any attraction of the kind I had suspected.” He maintained that he “confirmed that [his] intention was to make sure there was no confusion about whether there was anything other than ‘an attraction of friendship’.” The FHFA Director testified that it was that “clarification” from the PMO Manager “that made it possible for [them] to have [] the walk in Rock Creek Park or meet at a performance venue or even have her come to my house to talk about work,” all of which he considered appropriate.

With that background, the FHFA Director explained that his remark on the November 11, 2016, recording that he was “guilty of having an attraction” to the PMO Manager meant only that he had “a friendship attraction” as he did with “all [his] mentees.” The Director opined that there was nothing in the recording that was inconsistent with that meaning. He asserted that he has

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“told a number of [his] mentees that [he] think[s] they’re gorgeous” and that he has a “friendship attraction” to them. The Director acknowledged that no other female mentees had visited his D.C. apartment. He recalled that an FHFA female IT employee, who has since retired, had visited his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her.

The Director also maintained that his reference to line-drawing concerned “[the] line between making decisions based on friendship and making decisions based on my responsibilities as Director” of FHFA. The FHFA Director dismissed his reference to his “disappointment” about drawing the line to be “a joke” and commented that both he and the PMO Manager laughed because “she knew [he] was joking” about whether he had a physical or sexual attraction to her. The Director also expressed his belief that the PMO Manager “knows in her heart that there was no effort [by him] to pursue any kind of romantic relationship with her.”

We are not persuaded by the explanations offered by the FHFA Director. Contrary to his testimony, the recording of the November 11, 2016, conversation reveals that the PMO Manager drew the line in question, not the Director. In the recording the Director is heard to say, “**I tried to accept** what you told me, the first time you told me” and that “I’m comfortable with drawing **the line where you told me I needed to draw it.**” (Emphasis added.) As the FHFA Director’s recorded words made clear, the line in question was drawn by the PMO Manager in an effort to place limits on his conduct toward her, which the Director “tried to accept.” Thus, we reject the Director’s explanation for this exchange. We are not persuaded by the Director’s assertion that the PMO Manager considered his statement that he would observe the line “much to [his] disappointment” to be nothing more than a “joke.” Less than a minute after the Director told the PMO Manager that he could “draw[] the line where you told me I needed to draw it,” the PMO Manager said, “I think I’ve definitely had concerns with – well with definitely coming here.”

The Director advised the PMO Manager, in the November 11, 2016, recording, and acknowledged, in both his February 2018 interview and October 2018 testimony to us, that he had sole authority to select candidates to fill executive positions. Had the FHFA Director sought solely to discuss potential advancement opportunities with a mentee, as he maintained, those discussions could, and would, have occurred during business hours in FHFA’s offices.

Moreover, we find the FHFA Director’s alternative explanation is not credible. He asserts that meetings outside FHFA’s office with the PMO Manager were necessary to avoid unjustified suspicions of an inappropriate relationship. But he also maintains that he was concerned that the PMO Manager might have been interested in an inappropriate relationship, and he sought to assure himself that she was not. He acknowledges, in his sworn testimony, that he never met another female mentee at his apartment. Given the Director’s stated

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concerns about the interests of the PMO Manager, the Director should have been especially scrupulous about conducting meetings with the PMO Manager in FHFA's offices. Instead, by his own admission, he treated the PMO Manager differently from other female mentees. A reasonable conclusion is that he did so because he was seeking an inappropriate relationship with her.

We find it more likely than not that the FHFA Director sought to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing "friendship" and/or mentorship by inviting her to his apartment (which he characterized as the "safest place to do this, to have this conversation. It would be the safest place to – if it were going beyond this conversation"), and reporting that he was "guilty of having an attraction" to her, by suggesting or implying he would use his official authority to assist her in obtaining an executive position at FHFA which he knew that she sought.²⁷

We are not persuaded by the Director's assertion that our findings are misplaced because the balance of the recordings of his conversations with the PMO Manager would show "her initiating conversations with me, a lot more than me initiating conversations with her." Assuming the Director is correct in this regard, the recordings would neither mitigate nor excuse his conduct. There are no circumstances under which it is appropriate for the head of FHFA to induce a subordinate employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.

At page 11 of his Response, the FHFA Director complains that we are applying a standard that is "both sexist and inconsistent with current standards of gender equality [and] is also inconsistent with the standard of equality I have been fighting for throughout my professional career." We stand by our finding: had the Director sought only to mentor this subordinate employee (whether male or female), there would have been no reason to induce that employee to meet at the Director's apartment, alone, on a federal holiday, and embark upon a conversation in which the Director intermingles comments about his attraction to that employee and admiration of that employee's physical appearance with a discussion of possible paths by which she could advance into FHFA's executive ranks.

²⁷ We do not credit the Director's statement that the possible executive positions he was discussing had "nothing to do with either [her] beauty or [his] feelings" or attraction to her. Were that the case, these discussions would have occurred during office hours within FHFA.

Pursuant to governing federal regulation, 5 C.F.R. § 2638.107, “an agency head is responsible for, and will exercise personal leadership in, establishing and maintaining an effective agency ethics program and fostering an ethical culture in the agency.” To do so, the Agency head must “demonstrate the importance of integrity and ethical values through [his] directives, attitudes, and behavior” and “lead by an example that demonstrates the organization’s values, philosophy, and operating style.”²⁸ Otherwise, employees will not believe in or abide by the tenets of the agency’s ethical culture. The Director’s conversation with the PMO Manager on November 11, 2016, certainly calls into question his commitment to gender equality, notwithstanding his public pronouncements.

For those reasons, we find that the FHFA Director violated Section 702 of the Standards when he attempted to coerce or induce the PMO Manager to engage in a relationship with him that went beyond their existing “friendship” and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

2. The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG inquiry must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee’s statement complete and accurate.²⁹

At the outset of the interview with the FHFA Director on February 15, 2018, an OIG Investigative Counsel and an OIG Senior Special Agent informed him that they were conducting an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the FHFA Director was not candid during his February 15, 2018, interview for the reasons set forth below.

The FHFA Director stated that he was the only individual in the Agency who: (1) could approve the creation of an executive position in FHFA and (2) could approve the selection of an individual to fill that position. In these circumstances, the existence of his personal relationship

²⁸ Government Accountability Office, *Standards for Internal Control in the Federal Government* (Sept. 10, 2014) (GAO-14-704G) (online at <https://www.gao.gov/assets/670/665712.pdf>).

²⁹ *Ludlum v. Dept. of Justice*, 278 F.3d 1280, 1284 (Fed. Cir. 2002). See *Ludlum v. Department of Justice*, 87 M.S.P.R. 56, paragraph 13 (2000), *aff’d.*, 278 F.3d 1280 (Fed. Cir. 2002) (“lack of candor exists when an applicant breaches the duty ‘to be fully forthcoming as to all facts and information relevant to a matter before the FCC, whether or not such information is particularly elicited.’”). Additionally, FHFA employees are obliged to provide OIG “accurate and complete information when requested” under a Memorandum of Understanding between FHFA and OIG in effect at all times relevant to both of our administrative inquiries.

– whether a friendship, mentorship, or “whatever it is” – with the PMO Manager was material to an inquiry examining whether an executive position had been properly created and whether the PMO Manager had been afforded preferential treatment. The FHFA Director, however, failed to disclose during his February 2018 interview what he disclosed during his October 2018, sworn testimony: that he considered himself to be the PMO Manager’s friend and mentor, at least since 2016. We now know, from his recorded statements in November 2016 to the PMO Manager that he: was “guilty of having an attraction” to her; and it was “much to [his] disappointment” that he had to “draw[] the line” where she told him it needed to be drawn.

There can be no doubt that the information that the Director failed to disclose during his February 2018 interview was material to the first investigation. The focus of that inquiry was whether the executive position had been improperly created and whether the PMO Manager had been preselected for it. Therefore, it was highly relevant whether the Director had any sort of relationship with the PMO Manager. We find that the FHFA Director’s omission of material information regarding the nature and tenor of his relationship with the PMO Manager during his February 15, 2018, interview to constitute a lack of candor.

We also find that the Director was not candid with us when he failed to disclose that he had a plan, dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks, as the June 17, 2016, and November 11, 2016, recordings show. In the recorded conversations of June 17, 2016, the Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. In the recorded conversation of November 11, 2016, the Director explained, “our original plan was to – at least one of the options that we were looking at was to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” After recounting the reasons that this plan “wouldn’t have been a good idea anyway,” the Director described the scenario under which another executive position, COO, might become vacant, creating a vacancy for the PMO Manager. The Director’s “plan” for the PMO Manager to obtain an executive position was material, particularly when the Director retained sole authority to create executive positions and appoint individuals to them. We find the Director’s omission of material information during his February 15, 2018, interview regarding his “plan” for the PMO Manager to obtain an executive position to constitute a lack of candor.

CONCLUSIONS

We provided a draft of this report to the FHFA Director; his November 26, 2018, written Response is attached as the Appendix. The Director's response is notable for what it does not contain. Nowhere does the FHFA Director deny that: (1) he invited a subordinate employee to meet with him alone, in his apartment; (2) during that meeting, he professed his physical attraction for that employee and held out opportunities for that employee to be promoted into specific executive positions; and (3) he knew this subordinate employee sought these executive positions over which he exercised total control.

Nor does the Director offer any evidence or assertions that contradict our findings. Rather, he claims that this report is incomplete because we lack the balance of the recordings made by the PMO Manager of her conversations with the Director. The Director states that the missing recordings would show that the PMO Manager, and not the Director, initiated most of the conversations. The Director, however, does not explain why that information would be exculpatory to a claim of misuse of government position for personal gain.

Lacking any exculpatory facts, the Director criticizes the inquiry that brought his misconduct to light. In particular, the Director alleges that: the report represents a "rush to judgment" so we could vindicate our independence and integrity; we improperly investigated a matter under Title VII and compromised FHFA's EEO process; our administrative inquiry was flawed; and we misled a federal court in our subpoena application. For the reasons set forth in this report, we flatly reject each of the process issues raised by the FHFA Director.

We follow the facts wherever they lead and we report the good and the bad. When our fact-finding identifies deficiencies in FHFA's programs and operations, shortcomings in FHFA's implementation of policies and guidance, inadequate internal controls, or wrongdoing by FHFA employees or senior executives of the conserved entities, we report the evidence that demonstrates the deficiencies, shortcomings, or wrongdoing, in accordance with professional standards. This inquiry and report were conducted in conformance with CIGIE *Quality Standards for Investigations* and the CIGIE *Quality Standards for Federal Offices of Inspector General*. We stand by the integrity of our administrative inquiry and by our two findings.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the OGE and to our congressional oversight committees. We are referring to the OSC the allegations about (b)(6);(b)(7)(C) for its review and determination.

APPENDIX: FHFA DIRECTOR'S RESPONSE

MEMORANDUM

DATE: November 26, 2018

TO: Leonard J. DePasquale and Laura Werthheimer, Office of the Inspector General, Federal Housing Finance Agency

FROM: Melvin L. Watt, Director, Federal Housing Finance Agency

(b)(6);(b)(7)(C)

RESPONSE TO DRAFT OIG REPORT OF INVESTIGATION OF ALLEGATIONS OF MISCONDUCT AGAINST FHFA DIRECTOR MELVIN L. WATT

I strongly disagree with this Draft OIG Report of Investigation (Draft OIG Report or Draft Report) and its "Findings." The Draft OIG Report reflects that the real interests of the FHFA OIG in this matter have turned out to be deflecting attention away from the OIG's own involvement in causing Ms. Simone Grimes to file legal claims against FHFA, getting a quick result, and protecting the OIG from political criticism, instead of making an effort to obtain and fairly report the facts. Additionally, both Finding 1 and Finding 2 are not supported by the facts in this case. Anyone reading this Draft Report (or the final OIG report, which I apparently will not be provided an opportunity to review and respond to) should be concerned that other interests have taken priority over the facts and should take special note of the following Response in evaluating whether the final OIG report or any of its conclusions should be considered.

In support of this Response, attached hereto are the following documents to which I make reference in this Response to ensure that the reader has a more complete understanding of all facts and circumstances related to this matter:

1. Exhibit 1: Copy of letter from Leonard J. DePasquale dated November 15, 2018 and the Draft OIG Report to which this Response is being made.
2. Exhibit 2: Copies of emails from me and/or my attorney to Leonard J. DePasquale, General Counsel of the FHFA OIG dated November 16, 17, and 19, 2018 requesting an extension of time to prepare and respond to the Draft OIG Report and requesting a copy of Appendix A referenced in the Draft Report, and emails from Mr. DePasquale denying both requests;

This document contains data or personally identifiable information that is protected under the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a). It is for official use only. Unauthorized disclosures of this information can result in civil, criminal, or administrative penalties.

3. Exhibit 3: Memorandum in Support of Petition of the United States to Enforce Subpoena Issued by the Inspector General of the Federal Housing Finance Agency;
4. Exhibit 4: Copy of my deposition provided under oath at the request of the FHFA OIG on October 11, 2018;
5. Exhibit 5: Transcript of recorded conversation between me and Ms. Grimes on May 10, 2018;
6. Exhibit 6: Fresh Facts publication on mentoring I prepared for Women's Equality Day.

The FHFA OIG should have recused itself from this matter because of real conflicts of interest as well as the appearance of a conflict of interest. The OIG has two real conflicts of interest and the appearance of a third conflict of interest which should have caused the OIG to recuse itself from this investigation.

1. The FHFA OIG was intimately involved in delaying Ms. Grimes' being able to compete for a position of advancement within FHFA and in the delays that ultimately led her to file an EEO complaint against FHFA. As confirmed on pages 4 – 5 of the Draft OIG Report, after sitting on two hotline complaints it received in the summer of 2017 and not starting an investigation of these complaints until January 2018, the FHFA OIG "requested that FHFA place a 'legal hold' on the position" for which Ms. Grimes was ultimately selected. That "legal hold" was not lifted until May 2018 because FHFA OIG took that long to complete its initial investigation. Essentially, the OIG made it impossible for FHFA to advance Ms. Grimes within FHFA from the summer of 2017 until May of 2018 because it dragged its feet on an investigation that could and should have been completed long before it was.
2. The FHFA OIG breached Ms. Grimes' confidentiality when the IG revealed to me that Ms. Grimes had filed an EEO complaint against FHFA and by communicating to me that Ms. Grimes had been recommended unanimously by the interview team from among the candidates for the executive position at issue in the hotline complaints that started in the

summer of 2017. I had no knowledge of either of those facts until the Inspector General communicated them to me.

3. Allegations have been made that the Inspector General has been “too cozy” in her relationship with me and, as a result, that the FHFA OIG has not been as aggressive as it should have been in evaluating me and the work of FHFA. These allegations have been reported in the press and have been under investigation by the unit that oversees U.S government offices of Inspectors General. While I do not agree with the allegations that have been made against the FHFA OIG, the fact that they have been made and are under investigation creates the appearance of a conflict of interest that could undermine fairness and the perception of fairness in this matter.

The Draft OIG Report acknowledges that the OIG has prioritized getting to a quick result over obtaining the facts.

Ms. Grimes stated under oath in her signed declaration to the U.S. Postal Service investigator as follows: “I have recorded all conversations with Watt from 2016 to present.” (See page 19 of Declaration A in the Postal Service Report). Ms. Grimes selectively produced parts of audio tapes of these conversations to the Postal Service Investigator and the FHFA OIG has relied on the Postal Service Report in preparing the Draft OIG Report. (See pages 9 – 11 of Exhibit 1). When FHFA-OIG subpoenaed all the tapes, Ms. Grimes did not produce them. The government sued to enforce the subpoena. On August 10, 2018, the government lawyers on behalf of FHFA-OIG represented to the U.S. District Court that the audio recordings in the exclusive possession of Ms. Grimes “are essential to FHFA-OIG’s ability to conduct its investigation.” (See Exhibit 3, page 1). On October 5, 2018 the District Court issued an Order requiring production of these recordings based on that written representation. The FHFA OIG’s acknowledgement on page 11 of its Draft Report that “we [the FHFA OIG] determined that the exigencies of time required us to complete our administrative inquiry based on the information we had obtained and report our findings, without the materials in the PMO Manager’s [Ms. Grimes’] possession” is not only directly contrary to representations made to a United States District Court in the OIG’s behalf, it is a

stunning admission by the OIG that it has placed getting a quick result over getting the facts in this case.¹

The FHFA OIG has provided no explanation of what “the exigencies of time” are. In the absence of such an explanation, the timing of this Report can only further politicize this matter for which claims have already been filed and litigation is already pending in the established and appropriate legal forums at the EEOC and in court.

If “the exigencies of time” relate to the fact that my term as Director of FHFA ends on January 6, 2019, in these partisan political times Democrats will no doubt question whether the urgency of filing this Report was motivated by a desire to have the President consider removing a democratic appointee as Director of FHFA within the last 35 days of his term in the position. Republicans, on the other hand, will no doubt question whether the urgency was motivated by a desire to place the President in an embarrassing or uncomfortable political dilemma in light of the history of harassment allegations against him.

The real answer, of course, is that there are no “exigencies of time” and no reason for the OIG to elevate getting a quick result over getting the facts. The discussion on pages 9 – 14 of the Draft OIG Report as well as statements I made throughout my deposition (Exhibit 4) confirm, as I have asserted throughout this process, that no fair assessment of the facts in this case can be made without all of the audio recordings. The Draft Report also confirms the real prospect that the purported transcripts, and the recordings themselves, may have been tampered with (See especially footnote 16 on page 11 of the Draft Report) and that the represented dates of the recordings certainly are inconsistent with the dates on which meetings took place (See pages 137 – 141 of Exhibit 4 and footnote 12 on page 9 of the Draft OIG Report).² As I stated on pages 152-153 of Exhibit 4:

But I think if what she’s saying is I’ve recorded every phone – every conversation we’ve had since 2016, then the best evidence of that would

¹ I am also disappointed that the OIG’s rush to judgment also led the OIG to deny me the common courtesy of the short extension of time I requested to respond to the Draft OIG Report under the circumstances reflected in Exhibit 2.

² Footnote 12 on page 9 of the Draft OIG Report suggests that the OIG cares little about credibility or the facts even when evidence is available. Even in the face of documentary evidence that Ms. Grimes has provided dates that are incorrect, the OIG has distressingly chosen to use factually incorrect information.

be the recordings, which is exactly what I've been saying all along. I mean – that's why I've been anxious to get all of the recordings because I think if you looked at this in its totality, it won't be me pursuing Ms. Grimes, it won't necessarily be her pursuing me either, but it will be her initiating conversations with me, a lot more than me initiating conversations with her. And there won't be many of either of those things, I think, in 2017, 2018.

While it is strange that an employee would be recording conversations between the employee and supervisors or other employees since 2016, if such recordings exist they certainly are critical evidence for anyone interested in getting the facts about what actually happened and would certainly be important in assessing the credibility of the people recorded. This is especially true where the employee who has such critical evidence has refused to cooperate with the OIG's investigation, where it is clear that the recordings "stop and start" (Draft Report, page 9) and do not contain the full conversations, where there is some indication that the recordings may have been tampered with, and where it is clear that the parts made available to the public and the investigator have been carefully selected and leaked in an effort to color the public's perception of the employee and to enhance the employee's legal position. Where one witness has been fully cooperative and provided sworn statements under oath to the OIG, it is fair to ask why the OIG is questioning the credibility of the one who has been cooperative while refusing to pursue the best evidence available on the facts and on credibility simply because it would take too long to do so. Without justification, the FHFA OIG simply abandoned the lawsuit to get the recordings to get to a quick conclusion of its investigation and to avoid criticism.

The Draft OIG Report's first contention that I misused my official position to attempt to obtain a personal benefit is simply unfounded.

Having been publicly chastised in the political arena for violating its obligation to protect Ms. Grimes from having her identity revealed publicly, the FHFA OIG in this Draft OIG Report now positions itself as investigator, prosecutor, judge and jury by ignoring the allegations made in the second round of hot line complaints and, instead, manufacturing allegations no one has ever made, bending facts and

taking them out of context, and treating my reputation as collateral damage in its rush to prove that the IG has not been too cozy in her relationship with me.

1. While I have acknowledged having a number of conversations with Ms. Grimes about her interest in advancing at FHFA, almost all of which were initiated by Ms. Grimes (apparently with recorder in hand), there is simply no evidence that any of those conversations or anything else I did was intended to obtain any personal benefit for me.

If the presumed personal benefit imagined by the OIG was that I was seeking a sexual encounter with Ms. Grimes, surely I would have attempted some physical contact with her over such a protracted period. At no time during the 4+ years I have known Ms. Grimes have I ever attempted to have any physical contact with her, and Ms. Grimes has affirmed that under oath. The Postal Inspector's Report states as follows on page 47 of the investigative summary:

Ms. Grimes acknowledged that Director Watt never groped her nor touched her. Ms. Grimes testified, "We have never been intimate in any fashion; specifically, we have never held hands, kissed, or engaged in any sexual activity."

The FHFA OIG had a full copy of the Postal Inspector's Report available in the preparation of its Draft Report and a full copy has previously been made available to all recipients of this Draft OIG Report.

My testimony on lines 13 – 22 on page 136 and lines 1 – 19 on page 137 of my deposition (Exhibit 4 to this Response) also confirms that I avoided any physical contact between me and Ms. Grimes.

2. Just as the FHFA OIG demonstrated an apparent willingness to have the Justice Department deceive the United States District Court as described earlier in this Response, in multiple ways in its dealings with me and my attorney and in the Draft Report the OIG has been deceptive or dishonest, has reported discussions out of context, misrepresented or distorted them, or attempted to interpret them in ways that are simply inconsistent with reality.

In the days leading up to my October 11, 2018 deposition (Exhibit 4), my attorney made several efforts to determine the nature and scope of the OIG's investigation because the Inspector General had testified before the House Financial Services Committee that the OIG had no role to play with respect to EEO complaints and because we had not (and still have not) been provided a copy of any of the hotline complaints. The OIG investigator (Mr. Rich Parker) was ambiguous, at best, about what and who was being investigated. During the course of my deposition, however, the following exchange took place (see lines 1 – 11 on page 106 of Exhibit 4):

[Watt]: So let me just explain the sequence of events so that you're clear. I would say between – well, it might be better for me just to read it to you because I have been preparing my responses to interrogatories on the EEO matter. I don't know ---

Mr. Parker: We're only looking into the hotline complaints, sir.

The Witness [Watt]: I didn't understand the distinction that Laura was making when she testified, and I still don't understand it.

Mr. Parker's statement in the above exchange confirmed that the OIG was "only looking into the hotline complaints." Multiple statements from the Draft OIG Report also confirm Mr. Parker's statement that the OIG's investigation should have been confined to the hotline complaints, and should not have been about the EEO matters which are being pursued in separate legal proceedings and about which the Inspector General has testified that the OIG has no role and no authority to investigate. The OIG states on page 1 of the Report at the very outset of the Report:

This inquiry was conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations raised in anonymous hotline complaints that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.

This is the second administrative inquiry involving the creation of this executive position and pre-selection of an employee to fill this position.

On page 2, the OIG Report states:

In the wake of the PMO Manager's email messages, we received three additional hotline complaints which alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager,

(b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

We

opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). The inquiry focused solely on possible misconduct by the FHFA Director.³

On page 8, the Draft OIG Report states:

In the wake of the emails sent by the PMO Manager, we received three anonymous whistleblower complaints. They alleged that the FHFA Director abused his government position for personal gain by creating an unnecessary position for the PMO Manager, (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director.

As we did before, we are referring to the OSC [Office of Special Counsel] the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this

³ Note that this Draft OIG Report was the first time I became aware that this inquiry was focused solely on me.

second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C) We set forth, in Appendix A, a summary of the facts we found during this second inquiry concerning the creation of the new executive position within OCOO.

As confirmed in Exhibit 2, the FHFA OIG has refused to provide me or my attorney a copy of the Appendix A referenced above and apparently does not plan to provide a copy of Appendix A to any recipients of the OIG Report other than the OSC. However, it should be noted that Appendix A (which I have never seen and apparently will not have the right to review and respond to) contains the OIG's report on the very allegations contained in both sets of hotline complaints, whether an executive position was created improperly in the OCOO. Appendix A is also the report that the OIG has repeatedly and erroneously represented that the Draft OIG Report is about.

This Draft OIG Report, however, is not about the matters alleged in the hotline complaints. Having concluded that the OSC has the exclusive authority to "determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C) by creating an executive level position in OCOO and having no evidence that I engaged in any such prohibited personnel practice based on my testimony at pages 6 – 71 of Exhibit 4 and the absence of any other evidence to support that contention, the OIG should have concluded its investigation. Instead, the FHFA OIG turned its investigation and this Draft OIG Report to the very things that are the contested issues in the EEO matter about which the Inspector General testified before the House Financial Services Committee the OIG has no authority to investigate.

The Draft OIG Report relates to matters that occurred long before the PMO even became a part of OCOO and before the executive level position was even thought about or created, not to any matters alleged in any of the hotline complaints. In the investigation of these unrelated matters the FHFA OIG has positioned itself as investigator, standard setter, prosecutor, judge and jury in an apparent effort to demonstrate the IG's distance from

me. In that process, the OIG demonstrates an even greater willingness to misstate and misconstrue facts and the OIG has set its own inappropriate standards and drawn conclusions (“Findings”) that are inconsistent with reality and lack any evidentiary support.

The OIG’s conclusions on pages 3 and 19 of the Draft Report, for example, that I “induced” Ms. Grimes to meet with me at my apartment is simply inconsistent with the documentary evidence. The following texts between me and Ms. Grimes prior to the meeting at my condo, which the OIG has apparently chosen to ignore, appear on pages 202 - 203 of the Attachments to Declaration A of the Postal Inspector’s Report:

Grimes: I have a few hours tomorrow between 1 and 3.

Watt: Do you have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a “few” hours?

Grimes: LOL. It’s a lot of time for me.

Watt: Sat or Sun or is my option only the “few” hours between 1 and 3 tom?

Grimes: Yes Friday.

Watt: OK. I assume you’ll tell me more tomorrow or at some point.

Grimes: Can we meet at 1 tomorrow?

Watt: You can let me know where.

In light of this exchange, particularly the last text, it is just disingenuous for the OIG to reach the conclusion it has reached.

Likewise, the Draft Report states on page 18 that the “The Director acknowledged that no female mentees had visited his D.C. apartment” and on page 19 the Draft Report repeats that “He acknowledges that he never met another female mentee at his apartment.” Both of these statements are directly contrary to my testimony at lines 18 – 22 on page 102 and lines 1 – 8 on page 103 of Exhibit 4 at which the following exchange took place:

Q. Just so I’m clear, that means you socialize with other mentees?

A. Yes.

Q. And you meet with them one-on-one as well?

A. Yes.

Q. For dinners, concerts?

A. I have, yes. I have, yes.

Q. And have other mentees met you at your home alone?

A. Yes.

Q. Have they met with you when other individuals are present?

A. Yes.

Perhaps the OIG thought that no one would take the time to go behind the misstatements in its Draft Report to review or pay attention to the real record on which its unfounded conclusions were drawn.

It is also clear from the OIG's questions and from its Findings in the Draft Report that the OIG is applying a standard that is both sexist and inconsistent with current standards of gender equality. It is also inconsistent with the standard of equality I have been fighting for throughout my professional career. Throughout the questioning and the Report, the OIG has been consumed with how my friendship and mentorship with Ms. Grimes compares to my friendship and mentorship with other female employees, ignoring all the while how they compare with my friendships and mentorships of male employees. The OIG's Draft Report finally concludes on page 19:

Instead, by his own admission, he [Watt] treated the PMO Manager differently from other female employees. A reasonable conclusion is that he did so because he was seeking an inappropriate relationship with her.

While the OIG may consider that a "reasonable conclusion," it is also a sexist conclusion and one that men and women alike should find objectionable because it assumes that a man can't be a friend of or mentor a woman without "seeking an inappropriate relationship with her." This

conclusion is inconsistent with everything I have supported and fought for throughout my professional career. I tried to explain this to the OIG from my own personal perspective on pages 112 – 115 of Exhibit 4 as follows:⁴

And, equally, you know, you really – you kind of have to know where I come from.

I practiced law in a civil rights law firm that did extensive employment discrimination work. And in our firm we really never distinguished between men and women in the way – I mean, the whole objective here is to get to a point where you don't have to be suspicious if you invite a female to do something that you would be – not be suspicious about if you invited a male to do it. That's equality from my perspective.

And so I've always tried to approach male and female friends and mentees in much the same way. And I carry – for 22 years we fought for this in the courts, landmark decisions to do away with employment discrimination. When I went to Congress, I took the same concept. It's in my DNA. When I came here, it's a bigger agency, and I've tried to follow the same concept. I haven't had – well, I've had as many friendships, but not as many mentoring relationships as I have had, although I've had a number in the period I've been here, not only with employees, but with the children of employees.

So you know, that's who I am. And now I'm not sure that that's, you know – I'm the first to tell you, this is in a sense a wake up call, it's a depressing wake up call when I know there are men in this agency who have visited my house in Charlotte, who have visited my condo, who I have much, much closer relationships with than the relationship I have with Ms. Grimes. And somehow the public is now saying that kind of equality is unacceptable. And, in my view, it's time for me to ride off into the sunset because the standards have

⁴ See also pages 93 – 100 of Exhibit 4.

become so confused that it's difficult to operate in them. (pages 112 – 113)

But I think we're setting ourselves up for a very unequal situation here. And I'm kind of glad I don't have to deal with it beyond January 6 of 2019, because that's just not the way I have lived the last 22, plus 21, plus almost 5 years of my life now. (pages 114 -115)

The Draft OIG Report's second Finding that I was not candid is also unfounded.

The Draft OIG Report concludes on page 21:

We find the Director's omission of material information during his January 15, 2018, interview regarding his 'plan' for the PMO Manager to obtain an executive level position to constitute a lack of candor.

Apparently, the OIG's theory is that I had some grand "plan" dating back to June or November 2016 to create an executive level position for Ms. Grimes and that the "plan" resulted in the approval of the executive position in OCOO. The theory, however, is simply inconsistent with the facts. No such plan ever existed and the notion that I had an obligation to reveal a plan that never existed and that had nothing to do with the original hotline complaints is nothing short of bizarre. Further, it would have required a giant conspiracy with multiple other parties, none of whom have supported the OIG's contention.

The OIG's theory appears to relate to discussions, which the Draft OIG Report disingenuously takes out of context, dating back to 2014 about where the Project Management Office (PMO) should be placed within FHFA. As I testified (page 10, line 19 to page 11, line 15 of Exhibit 4):

I can tell you that the decision to move the PMO office out of DOC [the Division of Conservatorship] to the chief operating officer's jurisdiction had been basically a two-year process, and there's substantial documentation of that. When I got here in 2014, we thought there were actually two offices that were probably misplaced in the agency, one of them – after some period of time,

and just kind of feeling our way around. One of them was the project management office, the other one was the compensation office.

And the reason we thought they were misplaced is that they were in – they were in one particular branch of the organization, and they served the entirety of the organization. And so the thought process about changing the PMO out of the DOC to put it somewhere that was more universally accessible to all parts of the agency started as – probably as early as 2015.

The OIG's theory also ignores my testimony on lines 17 – 22 of page 128 of Exhibit 4:

We decided – we looked at the possibility of putting the PMO office under the chief of staff before we – that was one of the options, we didn't – it didn't seem to make a lot of sense to me, but that was an option that was discussed at one point.

The OIG's theory also ignores other important facts:

1. I had no indication that the hotline complaints that led to the OIG's first investigation involved any allegations of impropriety on my part because they did not. The following from page 1 of the Draft OIG Report is instructive on this point:

We first received anonymous hotline complaints in the summer of 2017 alleging that: 1) (b)(6);(b)(7)(C) inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; 2) (b)(6);(b)(7)(C) advised two senior FHFA employees "not to bother applying for the job"; and 3) the creation of a new executive position was inconsistent with FHFA's prior buy-out.

2. I did not then, nor do I now, believe that the approval of a buy-out or the approval of the creation of an executive position in OCOO represented anything other than approvals of sound business recommendations made by FHFA executives whose judgments I trusted.

3. I did not then, nor do I now, believe that either of these decisions related in any way to discussions with employees, including Ms. Grimes, about employment or advancement opportunities at FHFA or elsewhere, discussions I regularly engage in with employees in the regular course of business.
4. I did not know who would apply for the executive position in OCOO, did not participate in any way in the interview or selection process, and did not know Ms. Grimes had applied and become the unanimously recommended applicant until that was revealed to me by the Inspector General at the end of the OIG's investigative process, long after I had been interviewed by the OIG in connection with the first round of hotline complaints on February 15, 2018.
5. When I became aware that Ms. Grimes had been recommended for selection to the executive position in OCOO I recused myself from the process and have not been involved in any decisions regarding the position since then.
6. I did not become aware that Ms. Grimes was making any sexual harassment allegations against me or that she believed she had any basis for making any such allegations until she told me on May 10, 2018 in a phone conversation. As I said on lines 9 and 10 on page 114 of my deposition "There was nobody more shocked than I was, May 10, in that recording." (See lines 9 – 22 on page 114 and lines 1 – 4 on page 115 of Exhibit 4). I vigorously dispute Ms. Grimes' allegations and the May 10, 2018 conversation reflected in Exhibit 5 confirms my surprise and strongly suggests that these allegations were added as part of Ms. Grimes attorneys' strategy to enhance her legal claims against FHFA.

Conclusion.

Contrary to the conclusions reached by the OIG and reported in its Draft Report, no decision I have made during my tenure as Director of FHFA, either policy, personnel or otherwise, has been for personal gain or based on personal relationship or any other improper motivation. Neither have I failed to be candid or sought to deceive anyone. Despite that, it is clear that the allegations in this matter and the context from which they arose have resulted in severe distress to my family, to FHFA and to many others. For that, I express sincere regret.

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 1

Part 1 of 2



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

November 15, 2018

Via Hand Delivery

Melvin L. Watt
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

*In re: Draft OIG Report of Investigation into Allegations of Misconduct Against FHFA
Director Melvin L. Watt*

Dear Director Watt:

As authorized by your attorney, Mr. Raymond Fay, Esq., enclosed is a draft report of the administrative inquiry into allegations of misconduct against you, prepared by the Federal Housing Finance Agency, Office of Inspector General (FHFA-OIG).

The attached draft report contains information that is protected by the Privacy Act of 1974, 5 U.S.C. § 552a. The release of this report or its contents to third parties is prohibited by law, unless such release is authorized under the Privacy Act.

We are providing a copy of this draft report to you as authorized by 5 U.S.C. § 552a(b)(1) for the official purpose of obtaining your response, if any, which will be included in our final report to the White House. Should you wish to provide a response to this draft report, please send it to me by **Noon, Monday November 26, 2018**, via my email at (b)(6);(b)(7)(C)

FHFA-OIG intends to issue the unredacted report, together with any response provided by you, to the White House, Congressional Oversight Committees, the Office of Government Ethics, and the U.S. Office of Special Counsel by close of business on November 26, 2018.

Please feel free to have Mr. Fay call me with any questions. I may be reached at (b)(6);(b)(7)(C)

Sincerely,

(b)(6);(b)(7)(C)

Leonard J. DePasquale

Summary

This inquiry was conducted by the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) into allegations raised in anonymous hotline complaints that an executive position had been created inappropriately and unnecessarily in the Office of the Chief Operating Officer (OCOO) of FHFA and that the Manager of the Project Management Office (PMO Manager) had been pre-selected for this position.

This is the second administrative inquiry involving the creation of this executive position and pre-selection of an employee to fill this position.

We first received anonymous hotline complaints in the summer of 2017 alleging that: 1) (b)(6);(b)(7)(C) inappropriately created an executive position in the Office of the Chief Operating Officer (OCOO) for an FHFA employee, the PMO Manager; 2) (b)(6);(b)(7)(C) advised two senior FHFA employees “not to bother applying for the job”; and 3) the creation of a new executive position was inconsistent with FHFA’s prior buy-out. At the conclusion of our fact finding for that first administrative inquiry, we formally referred the matter to the Office of Special Counsel (OSC) and provided the OSC with a summary of the facts found during that inquiry. On May 3, 2018, the OSC provided us with its preliminary determination that the record as it then existed did not support the allegations that the new executive position had been created improperly or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection for it. On May 7, 2018, we provided OSC’s written preliminary determination to FHFA and informed the Agency that we had completed our administrative inquiry and planned to close it.

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA’s Office of Equal Employment Opportunity (EEO) alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended). Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims. FHFA contracted with the United States Postal Service (USPS) to gather facts and information regarding the PMO Manager’s sexual harassment claim. This fact gathering began on June 14, 2018.

On July 3, 2018, while fact gathering was ongoing, the PMO Manager used her FHFA computer and email address to forward to her counsel an email exchange she had with the contract investigator regarding her disparate treatment claims. She also blind-copied this message to over 100 FHFA managers. The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not. Several minutes later, the PMO Manager re-forwarded that email message to her counsel and, once again, the FHFA managers. Attached to that re-forwarded message was an audio file containing a recording of a conversation between the PMO Manager

and the FHFA Director, as well as three purported transcripts of other conversations between the PMO Manager and the FHFA Director which were prepared by the PMO Manager. Shortly thereafter, the PMO Manager sent a third email to the more than 100 FHFA managers that read "Sorry – this was sent in error – please disregard [sic]." The body of that email contained the same string of communications as the first two messages.

In the wake of the PMO Manager's email messages, we received three additional hotline complaints which alleged, in summary, that the FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager, (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work). This inquiry focused solely on possible misconduct by the FHFA Director.

We requested and received information from FHFA and the PMO manager. We also served subpoenas on the FHFA Director and the PMO Manager; and we interviewed 20 witnesses, including the FHFA Director. Initially, counsel for the PMO Manager cooperated in our inquiry, and provided us with 6 audio recordings of conversations between the Director and the PMO Manager and a total of 8 transcripts of conversations between them, some of which were prepared by the PMO Manager. Thereafter, the PMO Manager declined to cooperate further. She refused to be interviewed by OIG, and she did not comply with FHFA's request to return her government-issued cellphone. She also did not comply with our administrative subpoena for audio recordings she made of conversations with the FHFA Director and other materials, even after an Order from a United States District Court required her do so.

The PMO Manager stated under oath in the USPS fact gathering process that she recorded every conversation she had with the FHFA Director from 2016 through 2018, and that twice a week she attended regularly scheduled senior staff meetings, which the Director also attended. Therefore, her statement leads us to believe that she may have additional recordings of conversations between her and the FHFA Director, which, despite our best efforts, we have been unable to secure. However, we have determined that the information we obtained during our administrative inquiry provides a sufficient basis on which to reach two findings of misconduct by the FHFA Director. We are issuing this report now because we have a statutory obligation to timely report misconduct by senior agency officials. Our two findings are:

The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

Section 702 of the Standards of Ethical Conduct for Employees of the Executive Branch (the Standards) prohibits an officer or employee from using any authority associated with his federal

office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise. The FHFA Director is bound by the Standards. We found that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in a personal relationship with him by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

The FHFA Director advised the PMO Manager, and reported to us, that only he could approve the creation of a new executive position and the selection of a candidate to fill it. By his own design, he met alone in his apartment with the PMO Manager, a female subordinate who the Director knew desired a promotion to an executive position in the Agency, and raised two possible opportunities for such a promotion. In a recording of a portion of their conversation in the FHFA Director's apartment, the FHFA Director can be heard to intermingle comments about his attraction to the PMO Manager and his admiration of her physical appearance with a discussion of possible paths by which she could advance into FHFA's executive ranks.

We find that there are no circumstances under which it would be appropriate for the head of FHFA to induce a subordinate female employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.

The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG inquiry must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee's statement complete and accurate.

At the start of our interview with the FHFA Director on February 15, 2018, in connection with the initial administrative inquiry regarding these matters, we advised the Director that his interview was part of an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the Director lacked candor when he omitted information that was material to our inquiry. Specifically, he omitted 1) any mention of his personal friendship with, and mentorship of, the PMO Manager; and 2) that he had a "plan," dating back to at least June 2016, under which the PMO Manager could advance into FHFA's executive ranks.

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. We have referred to the OSC the allegations about (b)(6);(b)(7)(C)

for its review and determination. Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC.

Background

In the summer of 2017, the FHFA Office of Inspector General (OIG) received two anonymous hotline complaints which included allegations that: 1) (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C) inappropriately created an executive position within OCOO for an FHFA employee, the PMO Manager;¹ 2) (b)(6);(b)(7)(C) advised two senior FHFA employees “not to bother applying for the job;” and 3) the creation of a new executive position was inconsistent with FHFA’s prior buyouts.

We forwarded the anonymous complaints to an FHFA Deputy General Counsel (DGC) and requested a response within 30 days. On September 15, 2017, that DGC reported to us that (b)(6);(b)(7)(C) did not create a new executive position for the PMO Manager. According to that DGC, (b)(6);(b)(7)(C) recommended to the FHFA Director that a new position be created to oversee the management of the Office of Quality Assurance (OQA) and the Project Management Office (PMO). The OQA was located in the OCOO and the PMO was being relocated from the Division of Conservatorship (DOC) to the OCOO. The FHFA Director approved (b)(6);(b)(7)(C) recommendation, in writing, on July 14, 2017.² The DGC advised us that FHFA had not advertised the opening for that new position, and that he intended to ask (b)(6);(b)(7)(C) to reconsider filling that position. He subsequently reported that (b)(6);(b)(7)(C) intended to advertise the position and fill it.

On November 20, 2017, FHFA posted a job announcement for the new executive position, which was open only to FHFA employees and only for two weeks. On November 27, 2017, the DGC agreed to notify us before FHFA offered the new executive position to anyone.

OIG’s First Administrative Inquiry

We received three additional anonymous hotline complaints concerning the new executive position, after it was posted.

¹ Her official position was Supervisory Management & Program Analyst. Within FHFA’s Division of Conservatorship and at the time (b)(6);(b)(7)(C) was considering whether to create a new executive position within OCOO, her title was Senior Advisor and PMO Manager.

² The DGC further reported that (b)(6);(b)(7)(C) denied “discourag[ing] FHFA employees from applying” for the position, and he credited that denial.

From January to March 2018, we conducted an administrative inquiry into the five hotline complaints, all of which were directed at the Agency and (b)(6);(b)(7)(C). None of the allegations suggested an improper relationship between the PMO Manager and the Director.³ In the course of our inquiry, we reviewed relevant Agency documents and interviewed 12 witnesses, including the FHFA Director and the PMO Manager. In January 2018, we requested that FHFA place a “legal hold” on the position, pending the outcome of our inquiry into the allegations in the hotline complaints, to which FHFA agreed.⁴

Interview of the FHFA Director

The FHFA Director was interviewed on February 15, 2018. He reported that, several years ago, he determined to retain sole authority to approve the creation of all executive positions within FHFA because he wanted to have the appropriate number of executives in the agency. He further explained that, pursuant to a directive issued by President Trump, each agency had to consider whether any vacant executive position could be eliminated and must justify the creation of any new executive position. According to the Director, he had to be satisfied that any new executive would increase the Agency’s efficiency.⁵ He stated that a number of FHFA employees, including the PMO Manager, expressed frustration that promotions to executive positions were available only through attrition because FHFA was “top-heavy.”

The FHFA Director explained that beginning in 2016, there was a consensus among FHFA senior executives to transfer the PMO from DOC to OCOO, and that this transfer was a priority for 2017. However, he maintained that the allegation that (b)(6);(b)(7)(C) lobbied to create a new executive to manage the PMO for a specific employee was untrue. He denied both that he approved the creation of the new executive position in OCOO expressly for the PMO Manager and that the PMO Manager lobbied him directly to create an executive position for her.

The FHFA Director explained that he also retained sole authority to select a candidate to fill an executive vacancy. He stated that he usually followed recommendations made by his subordinates in selecting individuals to fill executive positions. He told us that he was unaware

³ This inquiry was conducted by career law enforcement personnel and career investigative counsel.

⁴ In January 2018, a panel concluded interviews of the candidates for the new executive position and determined that the PMO Manager was the most qualified candidate.

⁵ In effect at the time that the FHFA Director approved (b)(6);(b)(7)(C) recommendation to create a new executive position was FHFA’s Order No. 4, “Delegation of Authority to Approve Personnel Actions, Determinations, and Requests,” which was issued by the previous FHFA Director on January 5, 2009. Under that order, the FHFA Director retained the authority to approve requests for executive positions. The current FHFA Director explicitly retained that authority when he replaced Order No. 4 with Order No. 4, Amendment No. 4 on September 15, 2017. In addition, on February 10, 2017, the FHFA Director sent a memorandum to all FHFA executive staff requiring them to “make a compelling case” for any new position and the need to fill it in response to the “Presidential Memorandum Regarding the Hiring Freeze,” issued by the President on January 23, 2017.

of the employees who applied for the new executive position and did not know the recommendation from the panel.

The FHFA Director acknowledged that, during his tenure, he spoke to a number of FHFA employees about the PMO Manager's abilities, but not specifically about whether she should be made an executive. According to the Director, FHFA has a number of talented employees, including the PMO Manager. In his view, the PMO Manager had great experience handling FHFA's relationship with Fannie Mae and Freddie Mac and standing up DOC. He noted that the PMO Manager was a trusted lieutenant to the former Deputy Director of DOC, prior to her retirement, and that this former Deputy Director had spoken highly about the PMO Manager.

Interview of the PMO Manager

The PMO Manager was interviewed on March 16, 2018. She explained that senior FHFA executives recommended and implemented the reorganization that moved the PMO to OCOO. The PMO Manager reported that she never heard that (b)(6);(b)(7)(C) had discouraged employees from applying for the new executive position or that he favored any applicant. She denied that: (b)(6);(b)(7)(C) told her that he had a preferred candidate for the position; she had been told in advance of the selection process that she would be selected for the new executive position; or she was the preferred candidate for it.

OIG Refers to the Office of Special Counsel the Evidentiary Record of its Administrative Inquiry, and OSC Reaches a Decision on the Matter

Congress established the OSC as an independent federal investigative agency, the primary mission of which is "to protect[] federal employees and applicants from prohibited personnel practices." Therefore, we concluded the OSC was the appropriate entity to determine whether a prohibited personnel practice had occurred regarding the creation of or selection for the new executive position.

We spoke with OSC officials during the inquiry to alert them that we intended to refer the matter to the OSC at the conclusion of our fact finding and formally referred the matter to OSC on March 22, 2018. The OSC accepted our referral, and on April 2, 2018, we provided the OSC with a summary of the facts found during our administrative inquiry, including documents provided by FHFA. On April 5, 2018, we met with OSC attorneys. The fact finding for our administrative inquiry was complete at that time.

By letter dated May 3, 2018, the OSC reported to us that it had reached a preliminary determination that the record as it then existed did not support the allegations that the new executive position was improperly created, or that FHFA executives provided the PMO Manager with an unauthorized preference or advantage in her selection by the panel.

On May 7, 2018, we provided OSC's written preliminary determination to FHFA and informed it that we had completed our administrative inquiry and planned to close the inquiry.

FHFA advised us that, as of November 8, 2018, the position remained vacant.

FHFA's Investigation of the PMO Manager's EEO Complaint

On May 9, 2018, the PMO Manager filed an informal complaint with FHFA's EEO Services, alleging violations of her rights under the Equal Pay Act and discrimination (including sexual harassment) on the basis of her sex and race in violation of Title VII of the Civil Rights Act of 1964 (as amended).⁶ Subsequently, the PMO Manager provided FHFA with specific allegations in support of her claims.

As part of her harassment claim the PMO Manager alleged that:

Information withheld because allegations are outside the scope of FHFA-OIG's investigation.

(b)(6);(b)(7)(C)

FHFA contracted with the USPS to gather facts and other information related to the PMO Manager's Title VII sexual harassment claim. The fact gathering, which began on June 14, 2018, included obtaining sworn statements, portions of audio recordings the PMO Manager chose to produce, and unofficial "transcripts" prepared by the PMO Manager.⁷

On July 3, 2018, while the fact gathering process was underway, the PMO Manager used her FHFA computer and email address to forward to her personal counsel an email exchange she had

⁶ FHFA documents show that the PMO Manager raised in a conversation with (b)(6);(b)(7)(C) in early April 2018, allegations that she had been subjected to discrimination and harassment based on her race and gender, which he sent onto FHFA's Office of Minority and Women Inclusion (OMWI). FHFA documents also show that an OMWI official provided the PMO Manager with an EEO intake form and spoke with her about filing an informal EEO complaint, in April 2018.

⁷ The report by the USPS contract investigator did not contain findings of fact and conclusions of law, and did not address the allegations of misconduct by the FHFA Director that are the subject of this report.

with the USPS contract investigator.⁸ She also blind-copied over 100 FHFA managers.⁹ The message referenced recordings of conversations between the PMO Manager and the FHFA Director and stated that transcripts of those recordings were attached to it, although they were not.

Several minutes later, the PMO Manager re-sent that email message to her counsel and, once again, blind-copied the same group of FHFA managers. Attached to that message was a file named "Watt Employment Charade Process" containing an audio recording of a portion of a conversation between the PMO Manager and the FHFA Director. Also attached were three purported transcripts of recorded conversations between the PMO Manager and the FHFA Director which the PMO Manager labeled, "Four Types Attraction," "Tattoo," and "Why Have You Rejected My Advances."¹⁰

Shortly thereafter, the PMO Manager sent a third message to the same group of FHFA managers, that read, "Sorry – this was sent in error – please disregard [sic]." The three purported transcripts and the recorded conversation were, once again, appended to the message.

OIG's Second Administrative Inquiry

In the wake of the emails sent by the PMO Manager, we received three anonymous whistleblower complaints. They alleged that the FHFA Director abused his government position for personal gain by creating an unnecessary executive position for the PMO Manager. (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

(b)(6);(b)(7)(C)

⁸ Any FHFA employee who seeks to access FHFA servers, whether through a government-provided computer, laptop, or personal computer, must first agree to terms and conditions in which the employee acknowledges no expectation of privacy.

⁹ The PMO Manager blind copied her first two messages to an FHFA email list, called "2018 Manager's Conference," which included more than 100 FHFA managers.

¹⁰ These were not actually transcripts, although they have the outward trappings of transcripts. Each of these three purported transcripts appeared to be produced by a certified transcription company because: each contained introductory pages labeled, "Transcript of Recorded Conversation;" each had a job number and the name of a court reporter who worked for the transcription company and provided the transcription; and each included a signed certification by the named court reporter, under penalty of perjury, that the transcript was a "full, true and correct transcription" of the recording...."

We learned subsequently, from the USPS contract investigator's report, that these three purported transcripts were created by the PMO Manager in 2018 from her recollections of 2016 conversations, using a "template" of a transcript from the transcription company. As we explain later in this report, the PMO Manager declined to provide either to the USPS contract investigator or to us the recordings of these conversations that these "transcripts" purported to document. Therefore, we treated each of these purported transcripts as the PMO Manager's 2018 recollections of conversations that took place during 2016.

We opened a new administrative inquiry into these complaints and added the five prior anonymous hotline complaints which also alleged the executive position had been created improperly (and for which we had previously completed our work).¹¹ This inquiry focused solely on possible misconduct by the FHFA Director.

As we did before, we are referring to the OSC the allegations regarding improper creation of a new executive position, and pre-selection of the PMO Manager. We are also providing to OSC the evidentiary record we compiled in this second inquiry, given that the OSC has the statutory authority to determine whether FHFA senior executives engaged in any (b)(6);(b)(7)(C)

(b)(6);(b)(7)(C) We set forth, in Appendix A, a summary of the facts we found during this second inquiry concerning the creation of the new executive position within OCOO.

OIG's Efforts to Obtain Audio Recordings, Transcripts, and Other Documents

FHFA provided us with the July 3, 2018, emails and attachments sent by the PMO Manager to her counsel and the FHFA managers. Thereafter, we sent requests for information to FHFA, and to the FHFA Director and the PMO Manager, through their respective counsel. FHFA provided responsive documents. The PMO Manager's counsel sent us six recordings made by her client of conversations with the FHFA Director:

- one recording of a conversation that occurred purportedly on June 17, 2016;
- three recordings of portions of a conversation on November 11, 2016;
- a duplicate of one of the November 11, 2016, recordings; and
- one recording of a phone conversation that occurred on May 10, 2018.

After listening to those recordings, which appeared to stop and start during the conversations being recorded, we concluded that none was a complete record.

The PMO Manager's counsel also produced:

- transcripts of the June 17, 2016,¹² and the three November 11, 2016, recordings, identified above;
- a transcript of a conversation with the FHFA Director that occurred purportedly on March 13, 2018 (but no recording for that conversation); and

¹¹ This inquiry was conducted by career government attorneys who serve as senior executives in OIG.

¹² The transcript of the conversation is dated June 17, 2016. However, the FHFA Director testified that the dinner meeting occurred on June 8, 2016, which was confirmed by the charge on his credit card statement. For purposes of this report, we refer to the recording of that meeting, and transcript, as June 17, 2016.

- three unofficial “transcripts” prepared by the PMO Manager of other conversations with the FHFA Director that occurred purportedly in 2016, which were substantially similar to the purported transcripts sent by the PMO Manager on July 3, 2018 (but no recordings for those conversations).

We also received from the USPS contract investigator, through FHFA, a recording of a phone conversation that occurred on May 8, 2018, between the PMO Manager and the FHFA Director.

To ensure that all materials, including recordings, relevant to our administrative inquiry were produced by the FHFA Director and the PMO Manager, we issued separate administrative subpoenas to them on July 18, 2018.¹³ Counsel for the FHFA Director and for the PMO Manager accepted service of the subpoenas.¹⁴

On July 27, 2018, the FHFA Director produced responsive materials. Counsel for the PMO Manager assured us that the PMO Manager would cooperate, and expressly authorized us to travel to the PMO Manager’s residence to retrieve from her copies of her audio recordings of conversations with the FHFA Director. That counsel asked for technological assistance to transfer all audio recordings to an encrypted flash drive and explained that such technological assistance was “the only impediment to the production” of the recordings. We agreed to provide that assistance.

From July 24, 2018, to the issuance of this report, the PMO Manager did not cooperate in our inquiry, although we advised her, both orally and in writing, that our inquiry focused solely on allegations of misconduct by the FHFA Director, for which she was only a witness. The PMO Manager refused to comply with our administrative subpoena, as well as an Order issued on October 5, 2018, by the United States District Court for the Eastern District of Virginia directing production of all materials sought in the subpoena.

We asked FHFA to provide to us the government cell phone issued to the PMO Manager because the PMO Manager said she used it to record conversations with the FHFA Director. The Agency asked the PMO Manager to return that phone. The USPS contract investigator’s report stated that the PMO Manager recounted that she had taken the government cell phone issued to her to a third party “data recovery provider who was able to recover data from [her] work phone.”

¹³ Neither the PMO Manager nor her counsel provided to us any recordings of conversations between January 1, 2016, and June 7, 2016; between June 9, 2016, and November 10, 2016; and between November 12, 2016, and May 9, 2018.

¹⁴ Upon the receipt of the subpoenas, neither counsel questioned the independence of this administrative inquiry, challenged the subpoena as issued for an improper purpose (such as harassment, intimidation, or retaliation), or claimed that we lacked authority to issue it.

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 1

Part 2 of 2

However, the PMO Manager declined to return this FHFA-issued government cell phone to FHFA.

The PMO Manager stated in her signed declaration to the USPS contract investigator, dated August 8, 2018, that “there were two regular weekly [senior staff] meetings that [she] attended with the Director...” and that she “recorded all conversations with [the FHFA Director] from 2016 to present.” Her statement led us to believe that she may have additional recordings of her conversations with the FHFA Director. To the best of our knowledge, the PMO Manager is the sole source for these additional recordings. Despite our best efforts, we have been unable to secure those recordings.

The PMO Manager appealed the decision by the U.S. District Court ordering compliance with our administrative subpoena. Because this could take months to resolve, and because the whistleblower allegations are time-sensitive, we determined that the exigencies of time required us to complete our administrative inquiry based on the information we had obtained and report our findings, without the materials in the PMO Manager’s possession.¹⁵

Review of Audio Recordings

Audio recordings provide the best evidence of statements made by the FHFA Director to the PMO Manager. As we have explained, we obtained, from counsel for the PMO Manager and from the USPS contract investigator, recordings made by the PMO Manager of portions of four conversations with the FHFA Director, two of which occurred after the executive position was created and the PMO Manager was selected by the panel to fill it. We caused transcripts to be made for each of these recordings.¹⁶ Two of these recordings, from conversations between the PMO Manager and the Director in June and November 2016, are relevant to this inquiry.

¹⁵ For those reasons, we reached an agreement with the PMO Manager, through her counsel, to dismiss the subpoena enforcement action.

¹⁶ The PMO Manager declined to produce recordings for three conversations she had with the FHFA Director during 2016 for which she created three unofficial “transcripts,” one version of which was attached to her July 3, 2018, email. The report of the USPS contract investigator recounted what the PMO Manager told the investigator: the PMO Manager used a template from a transcription service company to create unofficial “transcripts” of her recollections of these three 2016 conversations; at her request, a third party data recovery service provider recovered data from a government cell phone issued to her; after the third-party data recovery provider recovered data from that government issued cell phone, the PMO Manager listened to recordings that she thought had been erased; she compared the recordings to her unofficial “transcripts” created from her memory; she found that the recordings were “consistent with minor deviations”; she “modified” her unofficial “transcripts” to “match the recordings”; she provided those modified unofficial “transcripts” to the contract investigator; and she did not make the recordings available to that investigator.

The June 17, 2016, Recording:

The FHFA Director confirmed that he and the PMO Manager met for dinner at the Rosa Mexicano restaurant in June 2016 and that this dinner was one of two meals that they shared off-site and alone. The portion of the recording produced to us begins in the middle of a conversation that purportedly occurred in June 2016 in a restaurant, with the PMO Manager asking the FHFA Director when the (b)(6);(b)(7)(C) position, which is an executive position, would become vacant. The FHFA Director responded, "I don't know what the timing is. [The (b)(6);(b)(7)(C) wouldn't be surprised if it was sooner rather than later." At a subsequent point in the recording, the Director suggested that the Chief of Staff position, an executive position, would become vacant after his current Chief of Staff moved to a different position.

The Director asked the PMO Manager: "What do you want, not just limited to the things I've laid out, what do you want to do?" She responded: "I think I've definitely been looking for kind of, you know, an expansion in role, you know. The chief of staff is ideal, but that'd be up to you, I guess." The FHFA Director explained that his term was limited to five years, which would be "a downside to having the chief of staff position" because "it doesn't necessarily carry over" and is "a discretionary position." The PMO Manager replied, "I don't think I'm going to stay at FHFA for the rest of my life" and "I think I can find other places." The FHFA Director concurred: "And being chief of staff to me would position you for a lot of places."

The November 11, 2016, Recording:

The FHFA Director confirmed that it is his voice on this recording of a conversation with the PMO Manager and that this conversation took place in his apartment in November 2016. (Text messages between the FHFA Director and the PMO Manager sent and received from his private cell phone during the period November 4-11, 2016, show that the Director first invited the PMO Manager to his apartment over the weekend of November 12-13, 2016, and that she agreed to meet with him on November 11, a federal holiday.)¹⁷

Again, the recording provided by the PMO Manager's counsel begins in the middle of a conversation in which the FHFA Director appears to have raised the opportunity for the PMO

¹⁷ In these texts, the FHFA Director sought to have the PMO Manager visit him for a longer period of time than she was willing. The PMO Manager texted, "I have a few hours tomorrow [b]etween 1 and 3," to which the Director responds, "Do u have more, less or no time on Sat or Sun instead? How do you calculate that the time between 1 & 3 is a 'few' hours?" The PMO Manager replies, "Lol It's a lot for me." The Director then texted, "Sat or Sun or is my option only the 'few' hours between 1 & 3 tom[orrow]?" The PMO Manager replied, "Yes Friday." On her way to his apartment on November 11, 2016, the PMO Manager texted, "About 30 mins out," and the Director responds, "The 'few' gets shorter."

Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. The FHFA Director characterized the former as “our original plan” which was “to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” The Director then explained to the PMO Manager that this option “wouldn’t have been a good idea anyway. Because the chief of staff is a position that basically whether you are career or whether you are schedule C, it’s generally going to change when the new director comes in.” He explained further that, in the event his successor chose a different chief of staff, she could “bump back” to her current position or to another position in the Agency equivalent to the one she left.

The FHFA Director continued that he was “not sure” that (b)(6);(b)(7)(C) (b)(6);(b)(7)(C) In the event (b)(6);(b)(7)(C) decided to return to his position (b)(6);(b)(7)(C) he could “take his position back” which was the reason that FHFA could not fill that position, even though the Director acknowledged that the PMO Manager was “doing a lot of the responsibilities that go with” that position.

The PMO Manager expressed her appreciation to the FHFA Director for “putting some thought into it and sharing that with me,” and stated that “I think I would be qualified for either position.” She then said, “I just need to make sure that I feel clear and confident that this is just going to be based on merit and fitness for the position, and that there’s nothing else.”

The FHFA Director replied that he “intended to address that first.” He then told the PMO Manager he thought she was “gorgeous” but he did not “make agency decisions based on who’s gorgeous and who’s not.” He maintained that he had “gone out of [his] way to get this—get our friendship. . . –or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it.” He reported to the PMO Manager that “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That is true.”

The Director acknowledged that he had “tried to accept what you told me, the first time you told me. And that’s fine. I accept it. I know I can draw the line.” After repeating four times that he could “draw the line,” the FHFA Director added, “[m]uch to my disappointment. . .”

The FHFA Director then asked the PMO Manager, “How are you feeling? What are you feeling?” and she responded, “I think I’ve definitely had concerns with—well definitely with coming here.” Even though he professed to know where to draw the line, he again remarked that his apartment was the “safest place to do this, to have this conversation” and that “it would be the safest place to—if it was going beyond this conversation.”

Interviews and Sworn Testimony

Between July 9, 2018, and October 18, 2018, we interviewed 20 witnesses—some on multiple occasions. Counsel for the PMO Manager did not respond to two written requests by us for an interview with the PMO Manager. A summary of two of these interviews follows.

Interview of the FHFA Director

On October 11, 2018, we interviewed the FHFA Director under oath, using a court reporter to transcribe the interview.¹⁸ He confirmed that he met the PMO Manager alone in his apartment in November 2016, and that it is his voice on the recording of a portion of his conversation with the PMO Manager, provided to us by the PMO Manager's counsel.

He testified that he is the only executive in FHFA authorized to approve the creation of a new executive position, and that FHFA remains “top heavy” with executives, despite his approval of an executive buy-out which the Agency conducted in 2014.¹⁹ The FHFA Director stated that he recognized that circumstances might require him to approve a request to create a new executive position. However, he would do so only if such a request was supported by a “compelling case” based upon “substantial documentation and support.” The Director established this standard in a February 10, 2017, memorandum he sent to FHFA executives following the issuance of the “Presidential Memorandum Regarding the Hiring Freeze” by the White House on January 23, 2017.

The FHFA Director also testified that he has been the PMO Manager's friend and mentor since at least 2016,²⁰ and that he met her alone outside of the FHFA workplace on four occasions in 2016: at a restaurant; at a night club; in Rock Creek Park, and at his apartment in Washington, D.C.²¹ Although he testified that he has mentored a great many individuals, he could not recall a female mentee other than the PMO Manager whom he invited to his private residence in DC.²²

¹⁸ The FHFA Director was represented by counsel at this interview.

¹⁹ In 2014, the Director approved a buyout of 12 FHFA executives at a cost of about \$1.45 million.

²⁰ The FHFA Director testified that he became the PMO Manager's mentor when she started coming to him for advice after his first meeting with her to discuss the PMO in 2015.

²¹ The FHFA Director also recalled meeting her at a restaurant in 2015.

²² He recalled that a FHFA female IT technician came to his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her. He stated that this technician had since retired.

The FHFA Director stated that the PMO Manager made it clear to him on multiple occasions that she wanted to be an executive in the agency. He added that “it was general knowledge that [the PMO Manager] was one of the people in the agency who had – who had good skills and should be considered if an executive level position ever got created.”

He testified that he assumed the PMO Manager would apply for the new executive position in OCOO when he approved the creation of it. He also confirmed that one of the options he considered for the PMO Manager was the “original plan” to bring her into the Chief of Staff’s office that “would have put [her] in line” to become chief of staff. He did not dispute that he discussed the chief of staff and COO positions with the PMO Manager, but thought he never discussed with her the impediments to her if she competed for the COO position. He explained those impediments to us: if the PMO Manager, who was a grade below an executive, “was competing for the [COO’s] position, there would probably be multiple existing executives who would want that position... And so no way a level 15 probably was going to get that job....”

Interview of (b)(6);(b)(7)(C)

We interviewed (b)(6);(b)(7)(C) on October 10, 2018, under oath and before a court reporter who transcribed the interview.²³ (b)(6);(b)(7)(C) testified that he was “transparent” with the PMO Manager and the OQA Manager, and discussed options by which to manage the PMO and OQA, including an option to create a new executive position and an option to place the PMO under an existing executive.

(b)(6);(b)(7)(C) recalled that the PMO Manager reacted negatively to his consideration of an option other than the creation of a new executive position and became upset. Further, she advised that she was “going to talk to the Director about that.” (b)(6);(b)(7)(C) recalled that he warned the Director about this development and that the Director responded that the PMO Manager had already spoken with him and that he had told the PMO Manager that the decision was up to (b)(6);(b)(7)(C).²⁴

Findings

As discussed, we recognize the likelihood that the PMO Manager has additional recordings of her conversations with the FHFA Director which the PMO Manager has not produced in response to our information request, subpoena, and a Court Order. To the best of our knowledge,

²³ (b)(6);(b)(7)(C) was represented by counsel at this interview.

²⁴ When asked whether (b)(6);(b)(7)(C) reported the PMO Manager would complain to the FHFA Director if (b)(6);(b)(7)(C) did not recommend creation of a new position, the FHFA Director answered: “He definitely didn’t tell me that because I would have remembered that.” He did not recall whether the PMO Manager came to see him after she thought (b)(6);(b)(7)(C) might not recommend creation of such a position.

the PMO Manager is the sole source for these additional recordings. However, based on our review of the identified recordings, documents, and information learned during our interviews, we have determined that we have a sufficient basis on which to reach two findings of misconduct by the FHFA Director.

1. The FHFA Director Misused his Official Position to Attempt to Obtain a Personal Benefit

The Standards establish a code of conduct applicable to all officials and employees of the federal executive agencies.²⁵ At all times relevant to our inquiry, the FHFA Director was subject to the Standards.

Section 702 of the Standards prohibits an officer or employee from using any authority associated with his federal office in a manner that is intended to coerce or induce a subordinate to provide him with any benefit, financial or otherwise.

For the reasons set forth, below, we find that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing “friendship” and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position within FHFA.

The recording of the Director’s conversation with the PMO Manager on November 11, 2016, establishes that the Director, not the PMO Manager, went “out of [his] way to get this—get our friendship. . . —or whatever it is, out of the public view because when other people start seeing things, they start putting different equations into it,” a statement confirmed by text messages from the Director inviting the PMO Manager to his apartment. The PMO Manager made clear in the recording that this off-site meeting was not her idea: “I think I’ve definitely had concerns with -- well, definitely with coming here.”

The Director explained his personal interest in the PMO Manager: “the truth of the matter is I don’t pay much attention to other people’s perceptions unless I’m guilty. And I’m guilty of having an attraction to you. That’s true.” He went on to say that he had “tried to accept what you told me, the first time you told me,” and was “comfortable with drawing the line where you told me I needed to draw it. So I’ve drawn that line [] much to my disappointment.” He reiterated that his apartment was the “safest place to have this conversation” and that “it would be the safest place to—if it was going beyond this conversation.”

The Director continued his discussion of the two executive position options for the PMO Manager, that of Chief of Staff and COO. He had also raised the option of the Chief of Staff position in the recorded conversation with the PMO Manager during the Rosa Mexicano dinner

²⁵ 5 CFR § 2635, et seq.

in June 2016. The PMO Manager responded that she thought she would "be qualified for either position," and asked the FHFA Director to assure her that any promotion "is just going to be based on merit and fitness for the position, and that there's nothing else." The FHFA Director responded that he thought she was "gorgeous" but didn't "make agency decisions based on who's gorgeous and who's not." He asserted that his discussion with the PMO Manager about two executive positions "has nothing to do with either your beauty or my feelings. But that doesn't eliminate the feelings or the beauty."

The Director sought to get the PMO Manager to agree with his perspective about the need to meet, alone, at his apartment:

But you understand I think you finally came -- you finally came to the conclusion that I did, that this is the safest place to do this, to have this conversation. It would be the safest place to -- if it were going beyond this conversation. But I think you were concerned that I was luring you here for other reasons. I wasn't concerned about that.

He added that his apartment was "just a safer place to have a conversation" for the PMO Manager because she would otherwise have exposure "sitting in a restaurant, going to Blues Alley, anywhere out in the public" because he was "so well known."

During his sworn interview, the FHFA Director sought to cast these remarks in an innocent light. According to the Director, he did not have a romantic attraction to the PMO Manager. He testified that the PMO Manager "started to make periodic visits to [his] office, during which [they] would discuss work and non-work topics. The increased frequency of those visits" and the "odd times at which the visits started to occur raised [his] suspicions that [the PMO Manager] could be developing an attraction to [him] that would be inappropriate for either an employer/employee relationship or a friendship or a mentor/mentee relationship." For that reason, he explained that he "requested an off-site meeting with [the PMO Manager] after work hours for the specific purpose of addressing and hopefully eliminating [his] suspicions about [her] intentions" and this meeting occurred at Rosa Mexicano in June 2016.

The FHFA Director volunteered that, while en route to Rosa Mexicano, he mentioned to the PMO Manager that there was an attraction between them that needed to be explored so that he could ascertain the PMO Manager's reaction. She "denied that she had any attraction of the kind I had suspected." He maintained that he "confirmed that [his] intention was to make sure there was no confusion about whether there was anything other than 'an attraction of friendship'." The FHFA Director testified that it was that "clarification" from the PMO Manager "that made it possible for [them] to have [] the walk in Rock Creek Park or meet at a performance venue or even have her come to my house to talk about work," all of which he considered appropriate.

With that background, the FHFA Director explained that his remark on the November 11, 2016, recording that he was “guilty of having an attraction” to the PMO Manager meant only that he had “a friendship attraction” as he did with “all [his] mentees.” The Director opined that there was nothing in the recording that was inconsistent with that meaning. He asserted that he has “told a number of [his] mentees that [he] think[s] they’re gorgeous” and that he has a “friendship attraction” to them.” The Director acknowledged that no other female mentees had visited his D.C. apartment. He recalled that an FHFA female IT employee, who has since retired, had visited his apartment “to set up [his] home computing capabilities with the office” but that he was not in “an ongoing mentoring relationship” with her.

The Director also maintained that his reference to line-drawing concerned “[the] line between making decisions based on friendship and making decisions based on my responsibilities as Director” of FHFA. The FHFA Director dismissed his reference to his “disappointment” about drawing the line to be “a joke” and commented that both he and the PMO Manager laughed because “she knew [he] was joking” about whether he had a physical or sexual attraction to her. The Director also expressed his belief that the PMO Manager “knows in her heart that there was no effort [by him] to pursue any kind of romantic relationship with her.”

We are not persuaded by the explanations offered by the FHFA Director. Contrary to his testimony, the recording of the November 11, 2016, conversation reveals that the PMO Manager drew the line in question, not the Director. In the recording the Director is heard to say, “**I tried to accept** what you told me, the first time you told me” and that “I’m comfortable with drawing **the line where you told me I needed to draw it.**” (emphasis added) As the FHFA Director’s recorded words made clear, the line in question was drawn by the PMO Manager in an effort to place limits on his conduct toward her, which the Director “tried to accept.” Thus, we reject the Director’s explanation for this exchange. We are not persuaded by the Director’s assertion that the PMO Manager considered his statement that he would observe the line “much to [his] disappointment” to be nothing more than a “joke. About a minute after the Director told the PMO Manager that he could “draw[] the line where you told me I needed to draw it,” the PMO Manager said, “I think I’ve definitely had concerns with – well with definitely coming here.”

The Director advised the PMO Manager, in the November 11, 2016, recording, and acknowledged, in both his February 2018 interview and October 2018 testimony to us, that he had sole authority to select candidates to fill executive positions. Had the FHFA Director sought solely to discuss potential advancement opportunities with a mentee, as he maintained, those discussions could, and would, have occurred during business hours in FHFA’s offices.

Moreover, we find the FHFA Director’s alternative explanation is not credible. He asserts that meetings outside FHFA’s office with the PMO Manager were necessary to avoid unjustified suspicions of an inappropriate relationship. But he also maintains that he was concerned that the PMO Manager might have been interested in an inappropriate relationship, and he sought to

assure himself that she was not. He acknowledges that he never met another female mentee at his apartment. Given the Director's stated concerns about the interests of the PMO Manager, the Director should have been especially scrupulous about conducting meetings with the PMO Manager in FHFA's offices. Instead, by his own admission, he treated the PMO Manager differently from other female mentees. A reasonable conclusion is that he did so because he was seeking an inappropriate relationship with her.

We find it more likely than not that the FHFA Director sought to coerce or induce the PMO Manager to engage in some sort of relationship with him that went beyond their existing "friendship" and/or mentorship by inviting her to his apartment (which he characterized as the "safest place [] to have this conversation, if it were going beyond this conversation"), and reporting that he was "guilty of having an attraction" to her, by suggesting or implying he would use his official authority to assist her in obtaining an executive position at FHFA which he knew that she sought.²⁶

We find that there are no circumstances under which it is appropriate for the head of FHFA to induce a subordinate female employee to meet with him alone, in his apartment, for a conversation in which he professes his attraction for that employee and holds out opportunities for the employee to serve in specific executive positions over which he exercises total control.

For those reasons, we find that the FHFA Director violated Section 702 when he attempted to coerce or induce the PMO Manager to engage in a relationship with him that went beyond their existing "friendship" and/or mentorship by suggesting or implying he would use his official authority to assist her in attaining an executive position with FHFA.

2. The FHFA Director Was Not Candid

Every agency employee, including the head of an agency, providing information in an OIG inquiry must be fully forthcoming and candid as to all facts and information relevant to the inquiry, even if that employee is not specifically asked about particular facts or information. Thus, an employee must disclose those things that, in the circumstances, are needed to make the employee's statement complete and accurate.²⁷

²⁶ We do not credit the Director's statement that the possible executive positions he was discussing had "nothing to do with either [her] beauty or [his] feelings" or attraction to her. Were that the case, these discussions would have occurred during office hours within FHFA.

²⁷ *Ludlum v. Dept. of Justice*, 278 F.3d 1280, 1284 (Fed. Cir. 2002). See *Ludlum v. Department of Justice*, 87 M.S.P.R. 56, paragraph 13 (2000), *aff'd*, 278 F.3d 1280 (Fed. Cir. 2002) ("lack of candor exists when an applicant breaches the duty 'to be fully forthcoming as to all facts and information relevant to a matter before the FCC, whether or not such information is particularly elicited.'"). Additionally, FHFA employees are obliged to provide

At the outset of the interview with the FHFA Director on February 15, 2018, an OIG Investigative Counsel and an OIG Senior Special Agent informed him that they were conducting an administrative inquiry into allegations that FHFA senior executives had improperly created a new executive position and pre-selected the PMO Manager to fill it. We find that the FHFA Director was not candid during his February 15, 2018, interview for the reasons set forth below.

The FHFA Director stated that he was the only individual in the Agency who 1) could approve the creation of an executive position in FHFA and 2) could approve the selection of an individual to fill that position. In these circumstances, the existence of his personal relationship – whether a friendship, mentorship, or “whatever it is” – with the PMO Manager was material to an inquiry examining whether an executive position had been properly created and whether the PMO Manager had been afforded preferential treatment. The FHFA Director, however, failed to disclose during his February 2018 interview what he disclosed during his October 2018, sworn testimony: that he considered himself to be the PMO Manager’s friend and mentor, at least since 2016. We now know, from his recorded statements in November 2016 to the PMO Manager that he: was “guilty of having an attraction” to her; and it was “much to [his] disappointment” that he had to “draw[] the line” where she told him it needed to be drawn.

There can be no doubt that the information that the Director failed to disclose during his February 2018 interview was material to the first investigation. The focus of that inquiry was whether the executive position had been improperly created and whether the PMO Manager had been preselected for it. Therefore, it was highly relevant whether the Director had any sort of relationship with the PMO Manager. We find that the FHFA Director’s omission of material information regarding the nature and tenor of his relationship with the PMO Manager during his February 15, 2018, interview to constitute a lack of candor.

We also find that the Director was not candid with us when he failed to disclose that he had a plan, dating back to at least June 2016, under which the PMO Manager could advance into FHFA’s executive ranks, as the June 17, 2016, and November 11, 2016, recordings show. In the recorded conversations of June 17, 2016, the Director appears to have raised the opportunity for the PMO Manager to fill one of two potential executive positions in FHFA: Chief of Staff and Chief Operating Officer. In the recorded conversation of November 11, 2016, the Director explained “our original plan was to – at least one of the options that we were looking at was to try to bring you into [the current Chief of Staff’s] office, and that would’ve put you in line right behind [the current Chief of Staff] to become chief of staff.” After recounting the reasons that this plan “wouldn’t have been a good idea anyway,” the Director described the scenario under which another executive position, COO, might become vacant, creating a vacancy for the PMO

OIG “accurate and complete information when requested” under a Memorandum of Understanding between FHFA and OIG in effect at all times relevant to both of our administrative inquiries.

Manager. The Director's "plan" for the PMO Manager to obtain an executive position was material, particularly when the Director retained sole authority to create executive positions and appoint individuals to them. We find the Director's omission of material information during his February 15, 2018, interview regarding his "plan" for the PMO Manager to obtain an executive position to constitute a lack of candor.

Conclusion

We are issuing this report to the President of the United States for such action as he deems appropriate, and to the OGE and to our congressional oversight committees. We have referred to the OSC the allegations about (b)(6);(b)(7)(C) for its review and determination.

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 2

Ray Fay

From: Watt, Mel <wattmebj@fhfa.gov>
Sent: Friday, November 16, 2018 11:34 AM
To: DePasquale, Leonard (b)(6);(b)(7)(C)
Cc: Wertheimer, Laura (OIG); Ray Fay
Subject: FW: Two Requests

Mr. DePasquale:

Thank you for the delivery yesterday afternoon of the Draft OIG Report of Investigation into allegations of misconduct against me. I respectfully make the following requests related to this matter:

- 1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG's most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide "technical comments" to ensure that factual errors were called to the OIG's attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.
- 2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt

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Ray Fay

From: Ray Fay
Sent: Saturday, November 17, 2018 1:53 PM
To: DePasquale, Leonard (b)(6);(b)(7)(C)
Cc: Wertheimer, Laura (OIG); Watt, Mel
Subject: RE: Two Requests

Mr. DePasquale,

This follows up on Mr. Watt's request to you below. The draft report states (at 4): "Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC." See *id.* At 9 ("We set forth, in Appendix A, a summary of the facts we found during this second inquiry....").

No Appendix A has been provided. Please furnish it to Mr. Watt and me. The incompleteness of the draft report reinforces Mr. Watt's request for additional time to provide his comments, on top of the independent merits of that request.

I am available this weekend to retrieve the missing document from you.

Thank you.

Ray Fay

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202 261 3508 f
rfay@faylawdc.com

From: Watt, Mel [mailto:wattmebj@fhfa.gov]
Sent: Friday, November 16, 2018 11:34 AM
To: DePasquale, Leonard (b)(6);(b)(7)(C)
Cc: Wertheimer, Laura (OIG) (b)(6);(b)(7)(C) Ray Fay <rfay@faylawdc.com>
Subject: FW: Two Requests

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- 1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG's most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide "technical comments" to ensure that factual errors were called to the OIG's attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.
- 2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans

and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt

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Ray Fay

From: DePasquale, Leonard (b)(6);(b)(7)(C)
Sent: Monday, November 19, 2018 12:20 PM
To: Ray Fay
Subject: RE: Two Requests

Mr. Fay:

This note responds to Director Watt's request of November 16 for an extension of time to respond to the draft report of FHFA-OIG's administrative inquiry into allegations of misconduct against him and your request of November 17 for a draft of Appendix A.

Director Watt's request incorrectly asserts that FHFA-OIG is not following "normal protocols" with FHFA for this draft report. The "normal" protocols were put into place for audits, evaluations and compliance reviews, and we have never applied them to roll-up reports, management alerts, or reports of administrative inquiries. As we explain below, these latter three categories of reports are fundamentally different from audits, evaluations and compliance reviews. For that reason, the "normal protocol" of 10 business days for "technical comments" followed by an additional 5 days for a management response has never applied to roll-ups, management alerts and reports of administrative inquiry.

A roll-up report, of which FHFA-OIG has issued two, summarizes FHFA-OIG's conclusions from a number of previously issued audits, evaluations and compliance reviews for which FHFA had 15 business days to provide technical comments and responses. For example, in December 2016, FHFA-OIG issued a roll-up report of 12 prior assessments of critical elements of DER's supervision program for the Enterprises and identified four recurring themes from the prior fact finding and recommendations. *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016). So too, the roll-up report issued in September 2018, *FHFA's Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners* (COM-2018-0067, September 6, 2018), explained the shortcomings and weaknesses of FHFA's Housing Finance Commissioning Program, based on the facts and findings from four previously issued reports. For each roll-up report, FHFA was provided 10 days to submit its management response.

Management alerts are issued to inform the FHFA Director of ongoing action (or inaction) in FHFA's operations and programs that, in the view of FHFA-OIG, require the Director's immediate attention. Providing FHFA with a technical comment period of 10 business days on the "facts" section of a management alert, followed by a response period of 5 business days, would serve only to delay issuance of a management alert for which immediate action is sought. During Director Watt's tenure, FHFA-OIG has issued several management alerts and has provided FHFA with 10 business days in which to submit both its technical comments, if any, and management response. See, e.g., *Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce* (OIG-2018-004, September 6, 2018); *Fannie Mae Dallas Regional Headquarters Project* (OIG-2017-002, December 15, 2016); *Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project* (COM-2016-004, June 16, 2016).

For those reasons, Director Watt's assertion that FHFA-OIG "adjusted" the "normal protocols" to expedite completion of reports so they could be included in its most recent Semi-Annual Report to Congress is

inaccurate. During that semi-annual period, FHFA-OIG drafted one roll-up and one management alert, and with respect to each, provided FHFA with the customary 10 business days for technical comment and/or management response.

The Inspector General Act of 1978, as amended, requires every federal Office of Inspector, including FHFA-OIG, to timely report misconduct by senior agency officials. Reports of administrative inquiries or administrative reviews typically are issued to set forth FHFA-OIG's fact-finding and conclusions into allegations of misconduct by an individual or individuals. Where the facts found are drawn, in whole or in large measure, from FHFA records, FHFA-OIG has issued its report of administrative inquiry without providing FHFA with any opportunity to provide technical comment and has instead subsequently appended to the already-issued report any management response later submitted by FHFA. See, e.g., *Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise* (OIG-2017-004, March 23, 2017); *Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation* (OIG-2017-001, December 6, 2017).

Where, as here, the facts found are drawn from a limited record, FHFA-OIG has provided FHFA with 5 business days in which to submit its technical comments and response. See, e.g., *Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise* (OIG-2018-001, July 26, 2018). As the draft report provided to Director Watt on Thursday, November 15, plainly acknowledges, the record on which FHFA-OIG made its findings was limited, and Director Watt was provided with the opportunity to supplement that record during his deposition. Based upon this record, FHFA-OIG determined that the information obtained during its administrative inquiry provided a sufficient basis on which to reach two findings of misconduct. The facts found in its draft report are drawn largely from agency records, including two recordings in FHFA's possession since August 2018 and the report of the contract investigator, provided to FHFA on August 13, 2018; a memorandum of Director Watt's interview of February 15, 2018, and a transcript of Director Watt's sworn testimony of October 11, 2018, where he was represented by counsel; and a charge card record produced by Director Watt through you as his counsel. Given that the facts found in this draft report are drawn from a limited record, FHFA-OIG will follow its practice and provide Director Watt 5 business days in which to submit his technical comments and response. (We note that these 5 business days equate to 10 calendar days).

Director Watt noted that he identified "several factual errors" in this draft report for which correction is warranted before issuance of the final report. FHFA-OIG has developed and implemented rigorous internal controls to ensure the accuracy of its reports. The draft report provided to Director Watt on November 15 has record support for each factual statement, all of which have been checked for accuracy by lawyers in FHFA-OIG's Office of Counsel. Notwithstanding these controls, FHFA-OIG recognizes that a potential for error exists. As Director Watt reported that he had already identified "several factual errors" in the draft report, kindly provide us with a list of those factual errors by close of business, November 20. Expedited identification of errors will allow us to revise the current draft, as necessary, and provide you with a revised draft no later than 5 pm on November 23.

With regard to Appendix A, that Appendix was prepared for OSC, as the current draft makes clear, for its use in its ongoing review. Because that review is not complete, we have determined not to include Appendix A as part of this report. Consequently, Appendix A will be delivered solely to the OSC, which follows the practice that we used for the first administrative inquiry. The draft report will be revised to remove all references to Appendix A. Because the information in Appendix A is provided to OSC for its ongoing review, we will not provide Appendix A to you, as counsel for Director Watt, or to any stakeholders.

For the reasons set forth above, FHFA-OIG will continue to adhere to its practice of providing 5 business days to FHFA for technical comment and a response. Should Director Watt wish to submit a management response after the November 26 deadline, FHFA-OIG shall forward that response to all stakeholders who receive the unredacted report.

Sincerely,

Len

Leonard J. DePasquale
Chief Counsel
FHFA-OIG

(b)(6);(b)(7)(C)

From: Ray Fay [mailto:rfay@faylawdc.com]

Sent: Saturday, November 17, 2018 1:53 PM

To: DePasquale, Leonard (b)(6);(b)(7)(C)

Cc: Wertheimer, Laura (b)(6);(b)(7)(C) Melvin L. Watt <wattmebj@fhfa.gov>

Subject: RE: Two Requests

Mr. DePasquale,

This follows up on Mr. Watt's request to you below. The draft report states (at 4): "Appendix A to this report is a summary of the facts we compiled during our administrative inquiry, and that summary has been provided to the OSC." See *id.* At 9 ("We set forth, in Appendix A, a summary of the facts we found during this second inquiry....").

No Appendix A has been provided. Please furnish it to Mr. Watt and me. The incompleteness of the draft report reinforces Mr. Watt's request for additional time to provide his comments, on top of the independent merits of that request.

I am available this weekend to retrieve the missing document from you.

Thank you.

Ray Fay

Raymond C. Fay
FAY LAW GROUP PLLC
1250 Connecticut Avenue, NW Suite 700
Washington, DC 20036
202 263 4604 t

(b)(6);(b)(7)(C)

202 261 3508 f
rfay@faylawdc.com

From: Watt, Mel [mailto:wattmebj@fhfa.gov]

Sent: Friday, November 16, 2018 11:34 AM

To: DePasquale, Leonard (b)(6);(b)(7)(C)

Cc: Wertheimer, Laura (OIG) (b)(6);(b)(7)(C) Ray Fay <rfay@faylawdc.com>

Subject: FW: Two Requests

Mr. DePasquale:

Thank you for the delivery yesterday afternoon of the Draft OIG Report of Investigation into allegations of misconduct against me. I respectfully make the following requests related to this matter:

- 1) The normal protocols we have adhered to between our office and the OIG related to draft reports, at least until the protocols were adjusted by the OIG to expedite finishing reports so they could be included in the OIG's most recent Semi-Annual Report to Congress, provided for 10 days for our office to provide "technical comments" to ensure that factual errors were called to the OIG's attention, followed by an additional 5 days for our response once our technical comments were considered and the draft was finalized. After reviewing the Draft Report delivered yesterday, there are several factual errors that I believe should be corrected before the Draft Report becomes a Final Report. I request that we follow our previously established protocols and that I be provided 10 days to provide technical comments to call these factual errors to your attention, followed by 5 days to provide my response from the time the Draft becomes Final.
- 2) Regardless of your disposition of the above request, I request that the time for me to provide my response be extended to no earlier than December 6, 2018 in light of previously scheduled Thanksgiving holiday travel plans and other pressing matters, both business (policy, transition, records retention, etc.) and personal (sale of DC residence, preparations to move, etc.), that are demanding my attention during this time frame. The Draft Report, of course, involves substantial reputational issues and neither the preparation of technical comments nor my response can be delegated.

Please advise me of your disposition of the above requests as soon as possible to enable me to plan appropriately.

Thank you in advance for your consideration.

Mel Watt

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**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 3

FILED

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division

2018 AUG 10 A 9:05

CLERK US DISTRICT COURT
ALEXANDRIA, VIRGINIA

UNITED STATES OF AMERICA,
on behalf of the Federal Housing Finance
Agency's Office of Inspector General,

Petitioner,

v.

SIMONE GRIMES,

Respondent.

MISC. NO.: 1:18-mc-26 (LO/JFA)

MEMORANDUM IN SUPPORT OF PETITION OF THE UNITED STATES TO ENFORCE
SUBPOENA ISSUED BY THE INSPECTOR GENERAL
OF THE FEDERAL HOUSING FINANCE AGENCY

INTRODUCTION

The Federal Housing Finance Agency ("FHFA") Office of Inspector General ("OIG") is investigating allegations of misconduct involving FHFA Director Melvin L. Watt. As part of that investigation, FHFA-OIG served Ms. Simone Grimes, an FHFA employee (Respondent), with a subpoena to obtain copies of audio recordings made by the Respondent, as well as other documents and material that are in her possession ("Subpoena"). See Exhibit 1.

The audio recordings of the communications, as well as the associated records in the Respondents possession may be the only such recordings that exist, and are essential to FHFA-OIG's ability to conduct its investigation.

Respondent has not produced the information required by the Subpoena. Respondent, through her then-counsel, previously provided FHFA-OIG certain information – partial audio recordings and partial transcripts – from a parallel administrative proceeding. However, those

recordings and transcripts do not appear to be complete, and Respondent has additional audio recordings in her possession.

BACKGROUND

FHFA-OIG is an independent office within FHFA charged with, *inter alia*, investigating waste, fraud and abuse relating to FHFA's programs and operations.

FHFA-OIG is conducting an investigation into allegations that FHFA's Director (Director) may have engaged in misconduct. FHFA-OIG identified the Respondent as a party who is likely the sole source of certain information necessary for OIG to complete its investigation.

On July 18, 2018, FHFA-OIG issued the Subpoena to the Respondent to obtain complete, unedited audio and other records of conversations between Respondent and the Director as well as conversations between Respondent and anyone else concerning her employment with FHFA; any and all transcripts of those audio and/or video recordings; any and all records of communication by and between the Respondent and the Director made from January 1, 2014, through July 17, 2018, including, but not limited to, emails and their attachments, text messages, telephone calls, voice mail, and other media.

Respondent, through her counsel at the time, confirmed receipt of service of the Subpoena on July 19, 2018. See Exhibit 2. On July 20, 2018, Respondent's then-counsel ("Counsel") stated that the Respondent had already provided information to the FHFA-OIG prior to the issuance of the Subpoena, asserted that the Respondent would provide additional information responsive to the subpoena on a rolling basis, and requested an extension to respond to the subpoena through August 17, 2018. As support of her request, Respondent's Counsel informed FHFA-OIG that her client would be away, she needed time to locate and assemble the

requested information and recover deleted voicemails, and last, she requested technological assistance to transfer audio recordings. FHFA-OIG offered technical assistance to download the full, unedited audio files and any other computer-hosted materials in Respondent's care, custody, or control, and sought a mutually-agreeable schedule for production of the remaining materials.

On July 24, 2018, Counsel authorized FHFA-OIG to communicate directly with Respondent to retrieve the relevant audio files within the next two days. However, on July 25, 2018, Respondent informed FHFA-OIG that she was going to obtain another counsel¹ to represent her in the OIG investigation.² Respondent stated that she would provide the name of her representative once secured. On July 26, 2018, the Respondent's prior counsel confirmed that she was not representing Respondent in the FHFA-OIG matter.

The subpoena deadline passed on July 27, 2018. On July 31, 2018, FHFA-OIG contacted Respondent by email to request the name of the attorney whom she had retained for the OIG matter. Respondent responded with a host of questions not relevant to her obligation to comply with the Subpoena, *e.g.*, questioning FHFA-OIG's authority to conduct the investigation and its scope. On August 1, 2018, FHFA-OIG informed the Respondent that she was not the subject of FHFA-OIG's investigation, and requested immediate cooperation to obtain the information required by the subpoena. FHFA-OIG again offered technical assistance, and emphasized the need for the complete audio recordings, with a rolling production acceptable thereafter. Notwithstanding the fact that the Respondent received more than 18 hours of administrative leave time to work on responding to FHFA-OIG's document requests, FHFA-OIG informed her that it would secure authority for her to use official work time to work on responding to the

¹ FHFA-OIG's investigation into allegations of misconduct is an independent, parallel proceeding to another matter in which Counsel represents Respondent.

² FHFA-OIG has informed Respondent that she is a cooperating witness, not the subject of the investigation.

Subpoena. Respondent responded that she would not “work on it until the week of August 13, 2018,” and further, that she was not providing any evidence to FHFA-OIG until a parallel administrative proceeding reached a certain point (an indefinite period). Respondent also stated that she had not agreed to turn over personal, non-government property to FHFA-OIG or allow FHFA-OIG to attach devices to her personal property, effectively refusing to comply with the Subpoena.

ARGUMENT

I

THE FHFA-OIG IS AUTHORIZED TO OBTAIN THE RECORDS IT HAS SUBPOENAED

The Housing and Economic Recovery Act of 2008 (“HERA”), Pub. L. No. 110-289, 122 Stat. 2668 (2008), established the FHFA and an FHFA Inspector General therein appointed in accordance with the Inspector General Act of 1978. *Id.* § 1105(a)(5), (c).

The Inspector General Act of 1978, as amended, 5 U.S.C. app. 3 § 6(a)(4) (“the IG Act”), authorizes an inspector general to require by subpoena the production of a wide variety of evidence “necessary in the performance of the functions assigned” by the IG Act and further provides that such subpoenas “in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court” *Id.*

Congress has recognized that IG subpoenas are critically-needed tools in investigations of allegations of fraud, waste, and abuse of government funds. During its consideration of the IG Act in 1978, Congress proclaimed: “Subpoena power is absolutely essential to the discharge of the Inspector and Auditor General’s functions.” S.Rep. 1071, 95th Cong., 2d Sess. 34 (1978), reprinted in 1978 U.S.C.C.A.N. 2676, 2709.

II

THE COURT SHOULD ENFORCE FHFA-OIG'S SUBPOENA

The role of a district court in enforcing subpoenas issued under the authority of the Inspector General Act is well established. As an initial matter, "[t]he [judicial review] process is not one for a determination of the underlying claim on its merits; Congress has delegated that function to the discretion of the administrative agency. Rather, courts should look only to the jurisdiction of the agency to conduct such an investigation." EEOC v. Am. & Efrid Mills, Inc., 964 F.2d 300, 303 (4th Cir. 1992) (*per curiam*).

FHFA-OIG has authority through the IG Act, 5 U.S.C. App. 3, §§ 4(a)(1) and 6(a)(4), to conduct this investigation and to demand the evidence it seeks from Respondent, through its July 18, 2018, subpoena. Accordingly, the Court need only be satisfied with affirmative answers to three areas of inquiry regarding the FHFA-OIG subpoena at issue: (1) is FHFA-OIG authorized to investigate the matter?; (2) has FHFA-OIG afforded due process to Respondent?; and, (3) has FHFA-OIG demanded information from Respondent that is relevant to the FHFA-OIG's investigation or inquiry? The answer to all three inquiries is "yes." See, e.g., United States v. American Target Advertising, Inc., 257 F.3d 348, 351 (4th Cir. 2001); EEOC v. Lockheed Martin Corp., Aero & Naval Systems, 116 F.3d 110, 113 (4th Cir.1997); EEOC v. City of Norfolk Police Dep't, 45 F.3d 80, 82 (4th Cir. 1995).

Accordingly, the United States has established its prima facie case for enforcement of the subpoena.

III

REASONS PROFFERED BY RESPONDENT FOR NONCOMPLIANCE

Respondent has not complied with the Subpoena requirements, but her reasons have nothing to do with the established test for enforcing Inspector General subpoenas. Respondent cited time constraints because she had been away just prior to receiving the Subpoena and plans to be away from August 6-10, 2018. Respondent has received more than 18 hours of administrative leave time to work on responding to FHFA-OIG's document requests, and FHFA-OIG informed her that it would secure authority for her to use official work time to work on responding to the Subpoena. Respondent should have the sought-after material readily available because it is relevant to a parallel proceeding. Moreover, FHFA-OIG has worked to make the Subpoena production easy and expedient, with the least burden possible to Respondent. FHFA-OIG repeatedly has offered technical assistance to facilitate the production of the full, unedited audio files and any other computer-hosted materials in Respondent's care, custody, or control. FHFA-OIG remains amenable to a rolling production of materials after receiving the audio files.

Respondent's challenges to FHFA-OIG's independence and authority lack merit. FHFA-OIG's authority to conduct this investigation is well-established under the IG Act and HERA. FHFA-OIG must fully investigate allegations of misconduct at FHFA in a timely manner and determine whether any allegations are substantiated.³ Respondent is a person who has information necessary for OIG to obtain in order for OIG to fulfill its statutory duties. Respondent has previously produced only partial audio recordings and transcripts of partial audio recordings, which appear to be incomplete. FHFA-OIG believes that there are additional audio

³ FHFA-OIG may conduct an independent, parallel investigation into matters within its jurisdiction notwithstanding the fact that the conduct under investigation may also violate other laws or regulations that provide individual remedies to aggrieved parties.

recordings made by the Respondent of her conversations with the Director. FHFA-OIG also seeks any and all transcripts of those recordings, handwritten notes and other materials relevant to FHFA-OIG's investigation. It is critical that FHFA-OIG obtain these materials—especially complete, unedited copies of the audio recordings that Respondent possesses—because she likely is the only person who possesses much of this information.

Respondent is not complying with the Subpoena, and the deadline for production has passed. Specifically, the Respondent is refusing to turn over requested information until after her parallel administrative matter is completed – some indefinite time – and her statements raise significant doubt regarding whether she will ever comply with the lawfully-issued Subpoena.

Respondent does not contend that she has been denied due process. Respondent has not claimed that the information sought by FHFA-OIG is not relevant. Instead, Respondent has raised various irrelevant, specious arguments to assert justifiable noncompliance, which now include the search for new counsel. The Subpoena satisfies the requirements for a valid subpoena and should be enforced.

CONCLUSION

WHEREFORE, Petitioner, the United States, respectfully requests that the Court:

1. Order Respondent to comply with the Subpoena and produce the recordings and documents demanded by the Subpoena within ten days of the date of this Court's Order, and,
2. Grant such other and further relief as the Court finds just and proper.

Respectfully submitted,

G. ZACHARY TERWILLIGER
UNITED STATES ATTORNEY

Dated: 8/10/2018

By: **RICHARD W. SPONSELLER**
Assistant United States Attorney
(b)(6),(b)(7)(C)
United States Attorney's Office
Justin W. Williams United States Attorney's
Building
2100 Jamieson Avenue
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(b)(6),(b)(7)(C)

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 4

Part 1 of 3

1

2 - - - - - X

3 MEMORANDUM OF INTERVIEW :

4 OF :

5 MELVIN L. WATT :

6 - - - - - :

7 :

8 X

9 Washington, D.C.

10 Thursday, October 11, 2018

11 Interview of MELVIN L. WATT, a witness

12 herein, called for examination by the FHFA-Office of

13 the Inspector General, in the above-entitled matter,

14 pursuant to agreement, the witness being duly sworn

15 by (b)(6);(b)(7)(C) a Notary Public in and for the

16 District of Columbia, taken at the offices of Federal

17 Housing Finance Agency, 400 7th Street, Southwest,

18 Washington, D.C., at 2:00 p.m., Thursday, October 11,

19 2018, and the proceedings being taken down by

20 Stenotype by (b)(6);(b)(7)(C) RPR, FCRR, and

21 transcribed under her direction.

22

Page 2	Page 4
<p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the FHFA-Office of Inspector</p> <p>4 General:</p> <p>5 RICHARD PARKER, ESQ.</p> <p>6 Dep. Inspector General for Investigations</p> <p>7 Federal Housing Finance Agency</p> <p>8 400 7th Street, SW</p> <p>9 Washington, DC 20006</p> <p>10 (202) 414-6439</p> <p>11</p> <p>12 ANGELA CHOY, ESQ.</p> <p>13 Asst. Inspector General for Evaluations</p> <p>14 Federal Housing Finance Agency</p> <p>15 400 7th Street, SW</p> <p>16 Washington, DC 20006</p> <p>17 (202) 414-6439</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>	<p>1</p> <p>2 EXHIBITS</p> <p>3 EXHIBIT NO. 1 FHFA Form dated 5-29-18 6</p> <p>4 EXHIBIT NO. 2 Memo dated 3-6-14 23</p> <p>5 EXHIBIT NO. 3 Organizational Chart 26</p> <p>6 EXHIBIT NO. 4 OMWI Chart 74</p> <p>7 EXHIBIT NO. 5 Memo dated 11-7-17 76</p> <p>8 EXHIBIT NO. 6 FHFA Form dated 5-29-18 80</p> <p>9 EXHIBIT NO. 7 Letter dated 7-27-18 82</p> <p>10 EXHIBIT NO. 8 Letter dated 9-2-18 84</p> <p>11 EXHIBIT NO. 9 Colloquy Trott/Watt 103</p> <p>12 EXHIBIT NO. 10 Transcript of Recording#1 109</p> <p>13 EXHIBIT NO. 11 Email dated 8-19-14 141</p> <p>14 EXHIBIT NO. 12 Calendar dated 9-11-15 141</p> <p>15 EXHIBIT NO. 13 Text Messages 145</p> <p>16 EXHIBIT NO. 14 Transcript of Recording#3 145</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>
Page 3	Page 5
<p>1</p> <p>2 On behalf of the Witness:</p> <p>3 RAYMOND C. FAY, ESQ.</p> <p>4 Fay Law Group, PLLC</p> <p>5 1250 Connecticut Avenue, NW</p> <p>6 Suite 200</p> <p>7 Washington, DC 20036</p> <p>8 (202) 263-4604</p> <p>9 Rfay@faylawdc.com</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>	<p>1 PROCEEDINGS</p> <p>2 Whereupon,</p> <p>3 MELVIN L. WATT,</p> <p>4 was called as a witness by counsel for the</p> <p>5 FHFA-Office of the Inspector General, and having been</p> <p>6 duly sworn by the Notary Public, was examined and</p> <p>7 testified as follows:</p> <p>8 EXAMINATION BY COUNSEL FOR FHFA-OIG</p> <p>9 BY MR. PARKER:</p> <p>10 Q. Mr. Watt, good afternoon. I'm Rich</p> <p>11 Parker, I'm the Deputy Inspector General for</p> <p>12 Investigations at FHFA, your agency. And this is</p> <p>13 Angela Choy to my right, the Assistant Inspector</p> <p>14 General for Evaluation. You know us both. Sir, do</p> <p>15 you want to enter your appearance on the record?</p> <p>16 MR. FAY: My name is Raymond Ray,</p> <p>17 representing Mr. Watt here.</p> <p>18 BY MR. PARKER:</p> <p>19 Q. So, Mr. Watt, we're here today to ask you</p> <p>20 a couple of questions about some hotline complaints</p> <p>21 that have come in over the course of the last several</p> <p>22 months concerning the creation of an executive</p>

Page 6	Page 8
<p>1 position in the Office of the Chief Operating 2 Officer, and allegations concerning how that position 3 was established and filled. I've discussed that with 4 your counsel, Mr. Fay, and if there's no reason you 5 can think of we shouldn't go forward, then I'm just 6 going to ask you a couple of questions and then turn 7 it over to Angela. Okay?</p> <p>8 A. Okay.</p> <p>9 Q. Sir, I'm going to show you what we're 10 going to mark as Exhibit Number 1. I have a copy for 11 Mr. Fay as well, sliding it over to you, Mr. Watt. 12 And I'm going to give this to the court reporter.</p> <p>13 MR. PARKER: Can you mark this as Number 14 I, please, ma'am.</p> <p>15 (Exhibit No. 1 was marked for 16 identification.)</p> <p>17 BY MR. PARKER:</p> <p>18 Q. Sir, what we have there is a document that 19 is signed by you at the bottom, 7-14-2017. If you 20 would please take a moment and examine that for me 21 and tell me if it looks familiar to you, please, sir.</p> <p>22 A. Yes.</p>	<p>1 establish a new executive position in the Office of 2 the Chief Operating Officer?</p> <p>3 A. I'm sure he did, yes, sir.</p> <p>4 Q. Can you tell me, please, sir, when he 5 delivered it to you?</p> <p>6 A. I don't know that I can tell you that 7 other than that the date that I signed it was 8 7-14-2017. I'm pretty sure it would have been at 9 some point prior to that, but I don't know how far in 10 advance of that he would have given it to me.</p> <p>11 Q. Did (b)(6);(b)(7)(C) hand it to you, sir, or 12 did you get it through routing or something?</p> <p>13 A. I don't recall. I don't have any 14 recollection of it. What normally happens is it 15 comes through a red folder process or a folder 16 process. Seldom does somebody just hand it to me 17 directly, but I couldn't rule that out.</p> <p>18 Q. This signature above yours on the first 19 page of what has been marked as Exhibit No. 1, do you 20 recognize it, sir? And whose signature does it 21 appear to be?</p> <p>22 A. I'm assuming that's (b)(6);(b)(7)(C)</p>
Page 7	Page 9
<p>1 Q. Thank you, sir. Is Exhibit No. 1 the 2 record of your decision to establish a new executive 3 position in the Office of the Chief Operating 4 Officer?</p> <p>5 A. It is, yes.</p> <p>6 Q. Does it contain all of your reasons for 7 establishing that position, sir?</p> <p>8 A. I don't know that it contains all of them.</p> <p>9 Q. Can you take a look at it and tell me 10 which ones are missing?</p> <p>11 A. I mean, I couldn't do that quickly, but 12 this is a -- was prepared by other people.</p> <p>13 Q. Is that (b)(6);(b)(7)(C) sir?</p> <p>14 A. I don't know exactly who prepared it. It 15 came to me via (b)(6);(b)(7)(C) yeah.</p> <p>16 Q. Did (b)(6);(b)(7)(C) describe the document to 17 you, sir?</p> <p>18 A. Yes, sir. Yes. And I reviewed it at the 19 time, yeah.</p> <p>20 Q. What did he say it was, sir?</p> <p>21 A. He said it was his position description.</p> <p>22 Q. Did he say it was his recommendation to</p>	<p>1 (b)(6);(b)(7)(C) signature, but I don't --</p> <p>2 Q. And the date next to his signature is the 3 11th of July and the date next to yours is the 14th 4 of July?</p> <p>5 A. Yes, so it's possible he could have 6 delivered it to me on the 11th of July.</p> <p>7 Q. Okay. Did you receive a recommendation 8 concerning how to manage the PMO, the Project 9 Management Office, upon its transition from DOC to 10 OCOO from the PMRC?</p> <p>11 A. No. No, I don't get recommendations from 12 the PMRC, it is a collaboration tool, it is not an 13 advice tool. They meet -- they try to reconcile 14 differences, if there are differences. I get the 15 minutes sometimes two or three weeks after the PMRC 16 met.</p> <p>17 Q. Do you know if the establishing of this 18 executive position was discussed at the PMRC, if so, 19 did you see the minutes?</p> <p>20 A. I don't recall. But if it was discussed 21 at the PMRC I would have gotten the minutes. Not 22 real minutes, but kind of a brief report from a</p>

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1 scribner because PMRC is a less formal body than some
2 of the bodies in our organization.
3 Q. I assume that before you decided to
4 establish the position, based upon Exhibit No. 1, you
5 talked about it with other people, the possibilities
6 of how to handle PMO when it moved into OCOO. Did
7 you have any conversations with anyone other than (b)(6);(b)(7)(C)
8 before you made your decision?
9 A. Not about the management of PMO after it
10 was in.
11 Q. I'm sorry, sir, I don't understand. What
12 do you mean by the management of PMO?
13 A. I thought that was the question you asked.
14 Q. How would PMO be managed? Did you -- I
15 mean, there were a number of ways to do it, according
16 to Exhibit No. 1, did you discuss with anyone other
17 than (b)(6);(b)(7)(C) how that should occur -- how the
18 management should occur?
19 A. I don't recall that I did. I can tell you
20 that the decision to move the PMO office out of DOC
21 to the chief operating officer's jurisdiction had
22 been basically a two-year process, and there's

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1 substantial documentation of that. When I got here
2 in 2014, we thought there were actually two offices
3 that were probably misplaced in our agency, one of
4 them -- after some period of time, and just kind of
5 feeling our way around. One of them was the project
6 management office, the other one was the compensation
7 office.
8 And the reason we thought they were
9 misplaced is that they were in -- they were in one
10 particular branch of the organization, and they
11 served the entirety of the organization. And so the
12 thought process about changing PMO out of the DOC to
13 put it somewhere that was more universally accessible
14 to all parts of the agency started as -- probably as
15 early as early 2015.
16 And then in 2000 -- in either 2016 or
17 2017, we actually put it on a priority -- the
18 executive -- my direct reports, what I call my
19 executive team, did a priority listing, which would
20 be available in our records. And it was put on a
21 priority list to move it. It had nothing to do with
22 anything other than it being the PMO office.

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1 And then throughout, I think, '15, '16,
2 '17, my recollection is that it actually was not
3 formally moved until -- we made the decision to move
4 the PMO office in the first quarter of 2017. And
5 then -- so it would have been on our priority list in
6 2017 -- in 2016, and actually in 2017.
7 Q. So after it was agreed to move it, the PMO
8 to OCOO, it became (b)(6);(b)(7)(C) job to recommend to you
9 how to manage it, right?
10 A. Well, he wouldn't have recommended it to
11 me. He would have started managing it. And I don't
12 know that I would have been really involved in a
13 conversation about how to manage it. At some point
14 he decided that it made sense to consolidate PMO with
15 I think our quality assurance office, and at that
16 point we had a discussion about that.
17 But the actual management of the PMO
18 office would have been totally within his
19 jurisdiction, because just like it was in DOC's
20 jurisdiction when it was in DOC, it would have been
21 under (b)(6);(b)(7)(C) decisionmaking process, it would
22 have been under (b)(6);(b)(7)(C) decision-making process once

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1 it moved to OCOO.
2 Q. So, okay. At some time did (b)(6);(b)(7)(C)
3 tell you that he was considering managing it by
4 creating another executive to serve in OCOO?
5 A. Yes, he did.
6 Q. Did you have a conversation with him about
7 that?
8 A. I'm pretty sure I had, yeah.
9 Q. Do you recall how many you had?
10 A. I don't recall that we had a lot.
11 Q. More than three or less than three?
12 A. I don't have any real recollection, to be
13 quite honest. I mean, you know, there are a lot of
14 decisions we make here that I just -- I can't keep up
15 with the number of conversations I have with people
16 about --
17 Q. But is it correct to say -- and correct me
18 if I'm wrong, but is it correct to say that you do
19 recall having at least one conversation with him
20 about that?
21 A. Yes.
22 Q. And could you tell me where that

Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy and their input during the deliberative process.

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1 conversation took place and who else was present,
 2 sir?
 3 A. It probably would have taken place in my
 4 office at a regular -- I mean, I meet with every one
 5 of my direct reports -- I meet with on a regular
 6 basis every other week, sometimes with other people.
 7 But when it comes to this (b)(6);(b)(7)(C)
 8 there's no -- generally nobody else other than me and
 9 (b)(6);(b)(7)(C)
 10 Q. I see. When he came to talk to you, sir,
 11 at the conversation you recall, did he bring with him
 12 some notes?
 13 A. I don't know what he brought with him to
 14 be quite honest.
 15 Q. Okay.
 16 A. I have on my list here that (b)(6);(b)(7)(C)
 17 completed the decision, Re: The reorganization of
 18 PMO and quality assurance on July 11, 2017, but --
 19 Q. That's the date --
 20 A. That is actually -- so that would have
 21 been the date that it was formally presented to me,
 22 but there were probably some conversations prior to

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1 that time leading to that.
 2 Q. And you recall at least one of them, yes?
 3 A. Yes.
 4 Q. And when you say formally presented to
 5 you, so formally presented means that you got what
 6 has been marked as Exhibit No. 1?
 7 A. Yes.
 8 Q. And this Exhibit No. 1 represents the
 9 record upon which you made your decision. Is that
 10 right?
 11 A. Yes.
 12 Q. And when you made your conversation with
 13 (b)(6);(b)(7)(C) do you recall whether or not he told you that
 14 he had solicited from individual stakeholders their
 15 input on how to manage PMO within the Office of the
 16 Chief Operating Officer?
 17 A. Yes. He told me that he -- I think he
 18 used the word, (b)(6);(b)(7)(C) by going to various
 19 people in OCOO to talk to them about it, and that
 20 he -- that various people wanted PMO under them as
 21 opposed to what he ended up doing.
 22 So, yeah, he -- I think he used the word

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1 (b)(6);(b)(7)(C) yeah, within his organization.
 2 Q. That sounds like (b)(6);(b)(7)(C)
 3 A. That sounds exactly like (b)(6);(b)(7)(C) And he is
 4 very methodical in the way he approaches things.
 5 Q. So the people under him in OCOO with whom
 6 he -- (b)(6);(b)(7)(C) socialized the proper way
 7 to manage PMO in OCOO would have been (b)(6);(b)(7)(C)
 8 in the Office of Technology and Information
 9 Management, (b)(6);(b)(7)(C) and (b)(6);(b)(7)(C) in the
 10 Office of Budget and Finance Management, (b)(6);(b)(7)(C)
 11 (b)(6);(b)(7)(C) in OFAC, and (b)(6);(b)(7)(C) in the Office of
 12 Human Resource Management. Yes?
 13 A. Well, those are people under his direct --
 14 I mean, those are people that report to (b)(6);(b)(7)(C)
 15 directly. But I can't confirm or deny or refute who
 16 he talked to among those. He may have talked to
 17 people other than them, I don't know the answer to
 18 that.
 19 Q. Okay. So what did he tell you he got as
 20 feedback from the people in OCOO, even though he
 21 didn't -- you don't recall him naming them? What did
 22 he say the feedback was?

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1 A. He said that there were people who had
 2 (b)(5)
 3
 4
 5
 6
 7 Q. Did (b)(6);(b)(7)(C) tell you his thoughts on doing
 8 that, on putting the PMO and OQA under OBFM or OTIM?
 9 A. I don't recall specifically him telling me
 10 that, but he could have. I don't just recall.
 11 Q. What do you recall him saying about
 12 placing OTIM in OQA under one of the other
 13 directorates in his OCOO organization?
 14 A. I think I told him at one point, look,
 15 this is your decision, and whatever decision you make
 16 you should make it the way you always make decisions,
 17 in the same (b)(6);(b)(7)(C) way that you approach things.
 18 And you should document it because -- and the
 19 documentation was less about any controversy about
 20 it, the documentation had to do with the fact that
 21 we -- that I basically had said we're not creating
 22 any new executive level positions without a

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<p>1 compelling case.</p> <p>2 When I got here the agency was very top</p> <p>3 heavy. And as a result of people coming from</p> <p>4 different agencies into FHFA, it was a conglomeration</p> <p>5 of people, and nobody who had been an executive level</p> <p>6 person had been demoted or shuttered aside. So you</p> <p>7 had all of these people who were executive level</p> <p>8 people who probably, if you were starting an</p> <p>9 organization from ground up, wouldn't have existed.</p> <p>10 So there was a disproportionate level of</p> <p>11 people in management or executive level positions as</p> <p>12 opposed to grades, you know, up to 15, that were not</p> <p>13 executive level positions.</p> <p>14 Q. You took some decisive action on that,</p> <p>15 didn't you, sir?</p> <p>16 A. He took --</p> <p>17 Q. You did. You took some decisive action?</p> <p>18 A. I took some decisive action. And so I</p> <p>19 said, no creation of any new executive positions</p> <p>20 without a compelling case. And then I reinforced</p> <p>21 that, because after President Trump came into office</p> <p>22 he sent out this thing basically saying, you know, go</p>	<p>1 A. If I recall. But, I mean, I don't know</p> <p>2 exactly what it says because I haven't reviewed it</p> <p>3 probably since I signed it.</p> <p>4 Q. Okay, sir.</p> <p>5 A. To be quite honest.</p> <p>6 Q. Let's go back to 2014 and 2015. You</p> <p>7 actually authorized a buy-out to reduce the</p> <p>8 executive -- the EL-15 ranks, didn't you?</p> <p>9 A. Yes.</p> <p>10 Q. And according to the HR department with</p> <p>11 whom you spoke as late as yesterday, you were able to</p> <p>12 reduce the executive ranks by 7 LLs, and you were</p> <p>13 able to reduce the EL-15 ranks by seven, at the cost</p> <p>14 of about \$3.39 million. Does that sound right?</p> <p>15 A. I'm sure I've got those numbers at some</p> <p>16 point, but I don't have any independent recollection.</p> <p>17 Q. It was successful at reducing the</p> <p>18 executive ranks as you just told us?</p> <p>19 A. It was modestly successful, yes.</p> <p>20 Q. Since that time though, the HR --</p> <p>21 A. I would alert you, though, that a primary</p> <p>22 motivation of the buy-out was less about reducing the</p>
Page 19	Page 21
<p>1 and make a review of everything -- of your</p> <p>2 organization, and if you find any inefficiencies, you</p> <p>3 know, address them. So at that point I sent out</p> <p>4 something to all of my managers saying -- and as part</p> <p>5 of the budget process they sent out something at my</p> <p>6 direction, saying, if you are contemplating creating</p> <p>7 a new executive position, you need to justify it, and</p> <p>8 justify it aggressively.</p> <p>9 Q. You also amended order number four to make</p> <p>10 certain that you had control over that, didn't you,</p> <p>11 sir? I'm handing you now what is going to be marked</p> <p>12 as Exhibit Number 2. It's an order that you created</p> <p>13 which ensures that you have total control over the --</p> <p>14 I gave a copy to him, I only brought one copy, Mr.</p> <p>15 Fay -- under that order, sir, I believe it says that</p> <p>16 you retain authority to promote executives and that</p> <p>17 you didn't delegate it. Is that right?</p> <p>18 A. I don't know exactly what it says. I</p> <p>19 mean, it says what it says. I mean, I did sign it</p> <p>20 and I think the primary provocation for this was the</p> <p>21 President's executive order, I believe.</p> <p>22 Q. That's why I gave it to you.</p>	<p>1 executive level positions than the political</p> <p>2 realities that had -- that surrounded my</p> <p>3 confirmation.</p> <p>4 A lot of people had different notions</p> <p>5 about who I was as a -- who I would be as a director.</p> <p>6 And I didn't want anybody to feel like they were</p> <p>7 captive to this organization. So we created a</p> <p>8 buy-out opportunity for people who felt they would</p> <p>9 rather leave than be managed by me. And that was one</p> <p>10 of the primary motivations, as much as reducing the</p> <p>11 management level positions.</p> <p>12 Now, it probably wasn't justified quite</p> <p>13 like that in the write-ups about it, but that was</p> <p>14 certainly part of my motivation for it.</p> <p>15 Q. (b)(6);(b)(7)(C) was your (b)(6);(b)(7)(C)</p> <p>16 (b)(6);(b)(7)(C) back in 2014 when you authorized the buy-out?</p> <p>17 A. Yes.</p> <p>18 Q. (b)(6);(b)(7)(C) sent out a memorandum to</p> <p>19 announce the buy-out, and I'm going to show you that</p> <p>20 to you in just a moment. I'm going to mark for you</p> <p>21 the third line -- I'm going to read it now and give</p> <p>22 it to you to read, sir. It says: Given the</p>

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<p>1 organizational issues that had to be addressed when</p> <p>2 FHFA was created, the agency's leadership staffing</p> <p>3 ratios was disproportionately higher than the general</p> <p>4 benchmark for other agencies of our size. That seems</p> <p>5 to me to be a reason to have a buy-out.</p> <p>6 A. Yeah, well, that's consistent with what</p> <p>7 I'm saying. But I'm telling you that aside from that</p> <p>8 document, I mean, normally when you're writing a</p> <p>9 document like that you're not going to put what I</p> <p>10 just -- the kind of considerations that I just</p> <p>11 described to you. And this is about -- this is about</p> <p>12 trying to create the whole frame. So I don't -- you</p> <p>13 know, I'm clear that that was one of the</p> <p>14 justifications that was given. And I don't know how</p> <p>15 the other justification was handled, but I know that</p> <p>16 that was general knowledge that everybody in the</p> <p>17 organization had. I mean, because, I mean, one of</p> <p>18 the concerns I had was, I didn't like -- I don't like</p> <p>19 unhappy employees, and this was an opportunity to</p> <p>20 create an opportunity for people who wanted to get</p> <p>21 out because they were either committed to the prior</p> <p>22 director or felt uneasy about the fact that I was</p>	<p>1 January 6 of 2014, and March of whatever that date is</p> <p>2 on that document, March 6, 2014, I mean, that's</p> <p>3 basically 90 days -- January, February, March, yeah,</p> <p>4 that's 60 days. So for me to have made that kind of</p> <p>5 assessment that quickly lets you know that it wasn't</p> <p>6 in my mind as much -- what was in my mind was, look,</p> <p>7 all kinds of perceptions have been created about me</p> <p>8 as the person coming in as the director of this</p> <p>9 agency. I don't want unhappy employees, and this is</p> <p>10 a good opportunity to allow anybody who felt like</p> <p>11 they wanted to leave to do that. So that was my</p> <p>12 primary motivation in my mind.</p> <p>13 The memo I think was a reflection of ideas</p> <p>14 that people had well before I got here.</p> <p>15 Q. Did you agree that the staffing ratios</p> <p>16 were too high?</p> <p>17 A. Obviously, this got sent out. I don't</p> <p>18 know if I signed it.</p> <p>19 Q. No, your (b)(6);(b)(7)(C) --</p> <p>20 A. I think I approved it. I didn't think he</p> <p>21 would have sent it out without me at least seeing it.</p> <p>22 Q. And seven executives is, I think you said</p>
Page 23	Page 25
<p>1 becoming the director of the agency. And it happened</p> <p>2 pretty quickly. You notice this is dated March 6,</p> <p>3 2014.</p> <p>4 Q. Yes, sir, it is.</p> <p>5 A. And I just started as the director on</p> <p>6 January 6th of 2014.</p> <p>7 MR. PARKER: Will you mark that exhibit</p> <p>8 next, please. Thank you very much.</p> <p>9 (Exhibit No. 2 was marked for</p> <p>10 identification.)</p> <p>11 Q. So that buy-out plus the high staffing</p> <p>12 ratios, and what you mentioned was the number of</p> <p>13 executives because of the merging of the two</p> <p>14 agencies, created in your mind the requirement to</p> <p>15 have a compelling case before you're going to make</p> <p>16 new executives. That's what you said, isn't it?</p> <p>17 A. Well, when you say in my mind, understand</p> <p>18 that this -- the top heaviness existed before I got</p> <p>19 here. Right? So that was in the mind of a lot of</p> <p>20 people. I think my primary motivation, to be quite</p> <p>21 honest, was the second motivation that probably is</p> <p>22 not even reflected in that document because between</p>	<p>1 something to the effect of it's a good start, but</p> <p>2 more was needed?</p> <p>3 A. Well, it helped. But, again, I'm still at</p> <p>4 that point assessing what the organization is going</p> <p>5 to look like and trying to make some assessments</p> <p>6 about it. I think the general perception has</p> <p>7 continued that the agency is top heavy.</p> <p>8 Q. Do you believe it's still top heavy?</p> <p>9 A. Probably. But at the same time, if you've</p> <p>10 got people in management level positions who are</p> <p>11 misplaced and you need a management level position</p> <p>12 that will enhance the effectiveness of the</p> <p>13 organization, and you make a compelling case for it,</p> <p>14 which is what the standard was that I set. This is</p> <p>15 not the only executive level position that I think</p> <p>16 has been created since I've been here, but every one</p> <p>17 of them has been created with substantial</p> <p>18 documentation and support. What I generally</p> <p>19 characterize as a compelling basis for doing so.</p> <p>20 Q. Okay. So in Exhibit Number 1, which you</p> <p>21 have a copy of in front of you, I'd like to ask you a</p> <p>22 couple of questions.</p>

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<p>1 (b)(6);(b)(7)(C) you mentioned a little while</p> <p>2 ago, told you that other executives who worked for</p> <p>3 him wanted to manage PMO and OQA. Yes?</p> <p>4 A. No, wanted to manage PMO.</p> <p>5 Q. He didn't say anything about OQA?</p> <p>6 A. I don't think they were trying -- because</p> <p>7 OQA was already an existing position, I mean, you'd</p> <p>8 have to reorganize and move it under somebody</p> <p>9 else's -- it had an executive over it. So I don't</p> <p>10 think the push-back was about OQA, it was more about</p> <p>11 where are you going to put PMO and who is going to</p> <p>12 manage PMO.</p> <p>13 Q. I have a very big poster here, which I'm</p> <p>14 going to describe for the record as the Office of the</p> <p>15 Chief Operating Officer, a wire diagram, dated June</p> <p>16 of 2017. It has an exhibit sticker on the bottom.</p> <p>17 MR. PARKER: You'll mark it next for me,</p> <p>18 ma'am.</p> <p>19 (Exhibit No. 3 was marked for</p> <p>20 identification.)</p> <p>21 BY MR. PARKER:</p> <p>22 Q. Why don't I put it over to you, sir, and</p>	<p>1 Q. You may be looking at Attachment 2, sir.</p> <p>2 A. That's a different attachment. I thought</p> <p>3 you said it was the one --</p> <p>4 Q. There are two attached to Exhibit 1.</p> <p>5 A. Sorry, I looked at the wrong one. All</p> <p>6 right. Yes, I see that now.</p> <p>7 Q. So is it -- to your recollection, (b)(6)</p> <p>8 (b)(6);(b)(7)(C) only discussed with you reluctance for his</p> <p>9 subordinate executives to manage PMO and not the</p> <p>10 combination PMO/OQA?</p> <p>11 A. My recollection is that that was the</p> <p>12 discussion.</p> <p>13 Q. Okay. But, you know, that's a -- you</p> <p>14 know, that's been awhile ago. I recall you saying</p> <p>15 when we first started to talk that (b)(6)</p> <p>16 to you about the notion of combining PMO and OQA. So</p> <p>17 when he discussed it with you, he must have talked</p> <p>18 about that if you remember it.</p> <p>19 A. Yeah, but not in the context of his</p> <p>20 (b)(6);(b)(7)(C) with other people in the organization</p> <p>21 as I recall. He could have -- I mean, that could</p> <p>22 have been part of the discussion, but my recollection</p>
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<p>1 you can have a look at it. By the way, sir, it is an</p> <p>2 attachment, Number 1 to Exhibit Number 1, which</p> <p>3 you've identified as the administrative record on</p> <p>4 which you made your record. I blew it up because I</p> <p>5 wear glasses and I recommend that you wear glasses if</p> <p>6 you're going to try to look at Exhibit No. 1. But I</p> <p>7 blew it up for you there.</p> <p>8 A. I just started in July -- this is my first</p> <p>9 set of glasses.</p> <p>10 Q. God bless you, sir.</p> <p>11 A. It does help -- it helps me. First of</p> <p>12 all -- Attachment 1?</p> <p>13 Q. Can you tell me what executive is over OQA</p> <p>14 in that diagram, sir?</p> <p>15 A. It says vacant at that point. Yeah.</p> <p>16 Which is probably -- well --</p> <p>17 Q. Actually, sir, the wire goes between chief</p> <p>18 operating officer, vacant, (b)(6);(b)(7)(C)</p> <p>19 straight down to the Office of Quality Assurance</p> <p>20 where (b)(6);(b)(7)(C) is? So it doesn't look like</p> <p>21 there's any officer --</p> <p>22 A. Oh, I see.</p>	<p>1 was that the primary, quote, unquote, push-back he</p> <p>2 had received was about where to put PMO. It</p> <p>3 wasn't -- it had little to do with quality assurance.</p> <p>4 Q. Did any of the executives who worked for</p> <p>5 him, (b)(6);(b)(7)(C)</p> <p>6 did any of them recommend that (b)(6);(b)(7)(C) manage PMO by</p> <p>7 creating a new executive?</p> <p>8 A. I don't know the answer to that.</p> <p>9 Q. Did (b)(6);(b)(7)(C) tell you any of them recommended</p> <p>10 it?</p> <p>11 A. I don't recall that he did, but he could</p> <p>12 have.</p> <p>13 Q. Did he tell you he got push-back from them</p> <p>14 on doing that?</p> <p>15 A. I don't recall that he did.</p> <p>16 Q. What did he tell you that they advised?</p> <p>17 A. I don't know that he really went into a</p> <p>18 lot of discussion about that because, you know, those</p> <p>19 are management decisions, kind of at a different</p> <p>20 level, you know. I have a 30-minute meeting with my</p> <p>21 direct reports, they're covering a lot of different</p> <p>22 issues. So I doubt that he got into that level of</p>

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1 detail with me, but I couldn't swear that he didn't,
2 I just don't recall.
3 Q. Well, at the meeting we're talking about
4 he was meeting to discuss with you whether or not to
5 create a new executive position, right?
6 A. I think he was floating different ideas.
7 He was considering different ideas. And my advice to
8 (b)(6);(b)(7)(V) was, look, make a decision that you think is in
9 the best interest of the organization, and support
10 it, if you're going to make a decision. And I would
11 have -- I think I probably would have supported any
12 decision that he made.
13 Q. Did you tell him that? Did you tell him
14 you'd support whatever decision?
15 A. Probably not.
16 Q. Probably not?
17 A. Probably not. But certainly not
18 explicitly, I might have implicitly said that,
19 because that's generally the way I deal with the
20 people who report to me. I trust their judgment.
21 And by that time, (b)(6);(b)(7)(V) had been in this (b)(6);(b)(7)(V)
22 position for a long period of time. He had gotten

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1 (b)(6);(b)(7)(C) every year, and I
2 was trying to get him to take the (b)(6);(b)(7)(C)
3 (b)(6);(b)(7)(C) You know, that's just the way I
4 manage. I'm not a micromanager from an organization
5 or personnel perspective.
6 Q. (b)(6);(b)(7)(V) came to meet with you, I understand,
7 you recall once, about the matter which is contained
8 in Exhibit 1?
9 A. I recall at least once.
10 Q. Yes, sir, at least once. Pardon me. And
11 that conversation was about whether or not he was
12 going to recommend to you the creation of an
13 executive position to manage PMO in your
14 organization. Is that correct?
15 A. That's correct.
16 Q. And he discussed with you the fact that he
17 (b)(6);(b)(7)(V) that idea, his word, not ours, with the
18 people that worked for him, the executives. Yes?
19 A. That is probably a general summary of what
20 happened, but --
21 Q. Feel free to answer it, sir.
22 A. I can't add to it because I don't have any

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1 independent recollection of what you're saying, I
2 mean --
3 Q. I understood you -- I don't mean to cut
4 you off. I know we're pressed for time, so I'm just
5 trying to get some questions out, but if you want me
6 to stop, Mr. --
7 A. I'm good.
8 Q. I'm a New Yorker.
9 A. But at the point you're putting words in
10 my mouth --
11 Q. I don't feel that way.
12 A. That I can either -- and generally I agree
13 with you. But if you're saying, do you have any
14 specific recollection of that, my answer is no,
15 because, you know -- I know we had discussions about
16 it. I know that he was considering that as one
17 option. And I know that I said, look, you know, you
18 have to make a decision about what you think is in
19 the best interest of the organization, and you need
20 to make that decision. You are the (b)(6);(b)(7)(V)
21 (b)(5);(b)(6);(b)(7)(C)
22

Page 33

1 (b)(5);(b)(6);(b)(7)(C)
2 (b)(5);(b)(6);(b)(7)(C)
3
4 A. No. I just -- I got the feeling that the
5 whole process was stretching out longer than it
6 needed to.
7 Q. How so?
8 A. Because, I mean, we had moved the PMO
9 office, and we had been talking about moving the PMO
10 office for a long, long period of time. And we had
11 moved to PMO office, I thought. And I just said, you
12 (b)(5);(b)(6);(b)(7)(C)
13
14 Q. What did he tell you he was going to do?
15 A. Well, he didn't tell me anything until I
16 got this memo in July of 2017.
17 Q. So at his meeting with you he never
18 discussed with you his options?
19 A. He did discuss options, but --
20 Q. Can you tell me what he said, please.
21 A. I don't have any recollection of specific
22 words that he used. I just know that he was looking

<p style="text-align: right;">Page 34</p> <p>1 at options. Where do you put PMO? Do you</p> <p>2 consolidate it with somebody else? Do you create an</p> <p>3 executive level position? And my response to him is,</p> <p>4 look, these are decisions within your control, at</p> <p>5 least in terms of recommending them, and you need to</p> <p>6 do what you think is in the best interest of the</p> <p>7 organization.</p> <p>8 Q. What you did he tell you was in the best</p> <p>9 interest of the organization at that meeting, if you</p> <p>10 recall?</p> <p>11 A. Well, when he gave me this, then I knew</p> <p>12 what he had decided was in the best interest of the</p> <p>13 organization.</p> <p>14 Q. Did he also tell you that he (b)(6);(b)(7)(C)</p> <p>15 his options with customers of OCOO like DHMG and DER?</p> <p>16 A. I don't recall that he said that to me,</p> <p>17 but he could have, I just don't recall.</p> <p>18 Q. Did he tell you that he sought input from</p> <p>19 (b)(6);(b)(7)(C) and Simone Grimes on that decision</p> <p>20 because they would be affected by it? (b)(6);(b)(7)(C)</p> <p>21 being an OQA and Simone Grimes being in PMO?</p> <p>22 A. I don't recall that he said that, but it's</p>	<p style="text-align: right;">Page 36</p> <p>1 an executive position she wanted to apply for, I</p> <p>2 think you'd remember that.</p> <p>3 MR. FAY: There's no question pending.</p> <p>4 He's making a statement.</p> <p>5 BY MR. PARKER:</p> <p>6 Q. Doesn't it seem odd to you?</p> <p>7 A. It doesn't seem odd to me at all, I'm</p> <p>8 sorry.</p> <p>9 Q. Okay.</p> <p>10 A. You know, you're trying to conjure up</p> <p>11 something that doesn't exist.</p> <p>12 Q. I have a good faith basis for the</p> <p>13 question. We both know what that means.</p> <p>14 MR. FAY: You're making more statements.</p> <p>15 I thought you were going to ask some questions.</p> <p>16 MR. PARKER: I can ask questions.</p> <p>17 MR. FAY: Okay.</p> <p>18 THE WITNESS: Am I finished with that?</p> <p>19 MR. PARKER: She can roll it up.</p> <p>20 MR. FAY: I'll roll it up.</p> <p>21 MR. PARKER: Thank you.</p> <p>22 BY MR. PARKER:</p>
<p style="text-align: right;">Page 35</p> <p>1 possible that he could have.</p> <p>2 Q. Do you recall whether or not he told you</p> <p>3 that Simone Grimes told him that if he, (b)(6);(b)(7)(C) didn't</p> <p>4 recommend creating a new executive position, that</p> <p>5 she, Simone Grimes, would tell you about that?</p> <p>6 A. He definitely didn't tell me that because</p> <p>7 I would have remembered that.</p> <p>8 Q. Did she come to see you about the creation</p> <p>9 of the executive position after she thought (b)(6);(b)(7)(C)</p> <p>10 (b)(6);(b)(7)(C) wouldn't create it?</p> <p>11 A. I don't think so.</p> <p>12 Q. She didn't --</p> <p>13 A. I don't recall.</p> <p>14 Q. She didn't come into your office and tell</p> <p>15 you about that?</p> <p>16 A. I don't have any recollection that she</p> <p>17 did, but it's possible that she did, I just don't</p> <p>18 have any recollection of it.</p> <p>19 Q. Well, it seems -- please pardon me, but it</p> <p>20 seems odd to me that as a director of an agency and a</p> <p>21 nonexecutive comes into your office and tells you</p> <p>22 that she's upset that someone is not going to create</p>	<p style="text-align: right;">Page 37</p> <p>1 Q. I'm going to ask a specific question to</p> <p>2 make the record clear. Do you have any recollection</p> <p>3 of (b)(6);(b)(7)(C) telling you that one of the options</p> <p>4 that he was considering was elevating (b)(6);(b)(7)(C)</p> <p>5 (b)(6);(b)(7)(C) from under (b)(6);(b)(7)(C) putting her</p> <p>6 directly under him and having OQA and PMO report to</p> <p>7 her?</p> <p>8 A. I don't have any recollection of him</p> <p>9 telling me that.</p> <p>10 Q. Would that be a viable option, though, in</p> <p>11 your opinion?</p> <p>12 A. I have no idea what he would have</p> <p>13 considered a viable option.</p> <p>14 Q. Do you think it might be a viable option?</p> <p>15 A. I have no idea because I don't manage at</p> <p>16 that level, I'm sorry.</p> <p>17 Q. And so for that same reason that you don't</p> <p>18 manage at that level, you don't have any opinion on</p> <p>19 whether it would be a good idea to put OQA and PMO</p> <p>20 under OTIM?</p> <p>21 A. I wouldn't have any opinion independent of</p> <p>22 somebody making a recommendation to me, and I</p>

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1 certainly wouldn't have gone down at that level and
 2 made that decision myself.
 3 Q. If (b)(6);(b)(7)(C) made that recommendation
 4 to (b)(6);(b)(7)(C) should he have given it serious
 5 consideration?
 6 A. I'm assuming if he made the recommendation
 7 to him, he probably did give it the consideration
 8 that he thought it was due. But I can't say that he
 9 should have or shouldn't have or what weight he
 10 should have given the recommendation if he got that
 11 recommendation, because I just don't -- there are
 12 things down in the organization -- I manage the
 13 people who directly report to me and have little
 14 direct management relations with the people below
 15 them.
 16 Q. Do you recall if (b)(6);(b)(7)(C) told you that the
 17 creation of a new executive position would create an
 18 opportunity for appointing a new minority female to
 19 an executive position because (b)(6);(b)(7)(C) and
 20 Simone Grimes were good candidates for the executive
 21 position in OCOO that he recommended?
 22 A. I don't recall that he said that, but he

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1 could have.
 2 Q. Would that be a good reason to create it
 3 in your mind?
 4 A. It wouldn't be a compelling reason to
 5 create an executive position, it would be one of the
 6 factors that one might consider because we also are
 7 trying to accomplish some additional objectives
 8 diversifying management, and EEOC has been pushing us
 9 to do that.
 10 Q. Yes. Before you decided to accept (b)(6);(b)(7)(C)
 11 (b)(6);(b)(7)(C) recommendation and create the new
 12 executive position in OCOO, was it made clear to you
 13 that Simone Grimes wanted to be an executive in this
 14 agency?
 15 A. She had made it clear to me for a long
 16 period of time, yes.
 17 Q. On what occasions did that occur, sir?
 18 A. Multiple occasions.
 19 Q. Over what period of time, sir?
 20 A. Probably starting some time in late 2014
 21 or early 2015.
 22 Q. And prior to making your decision to

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1 establish an LL in OCOO, did (b)(6);(b)(7)(C) tell you that
 2 she made this clear to him on numerous occasions as
 3 well, that she wanted to be an executive?
 4 A. I don't recall that he told me that, but
 5 he could have, yeah.
 6 Q. Do you recall what (b)(6);(b)(7)(C) opinion as
 7 to what her potential to serve as an executive was,
 8 sir?
 9 A. I think everybody in our agency who dealt
 10 with Ms. Grimes viewed her qualifications as being --
 11 she had done an exceptionally good job as the head of
 12 PMO, and people thought highly of her skill set. But
 13 beyond that, I don't know what else I could say about
 14 it.
 15 Q. I kind of wanted to know if (b)(6);(b)(7)(C) told
 16 you that she had potential to serve as an executive?
 17 A. I don't think he -- he may have. I don't
 18 know. I don't have any recollection that he said it
 19 in that way, but I think it was general knowledge
 20 that Ms. Grimes was one of the people in the agency
 21 who had -- who had good skills and should be
 22 considered if an executive level position ever got

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1 created.
 2 Q. No matter what words he might have used,
 3 what was (b)(6);(b)(7)(C) opinion of her potential to serve
 4 as an executive when he expressed that to you, if he
 5 expressed that to you?
 6 A. I don't recall that he had an opinion
 7 about her as an executive. He was expressing an
 8 opinion that she was doing good work, and I think
 9 that was a universally acknowledged thing. And I was
 10 observing it because she was the point person on an
 11 in number of things within DOC that came to the
 12 conservatorship committee.
 13 So, I mean, I don't think you'll find
 14 anybody in the agency who didn't think that she was
 15 a, quote, unquote, rising star, so the speak, in the
 16 agency.
 17 Q. So you had contact with her in the context
 18 of the conservatorship committee, is that right?
 19 A. Yes.
 20 Q. And did you have occasion to form an
 21 opinion about her potential to serve as an executive?
 22 A. I don't know that I have an opinion about

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<p>1 her potential to serve as an executive because that</p> <p>2 is a process -- nobody gets appointed as an executive</p> <p>3 without going through a competitive process, you</p> <p>4 know. Anybody who gets an executive level position</p> <p>5 has to go through a competitive process.</p> <p>6 Q. Right. Did you form an opinion about her</p> <p>7 potential to serve as an executive, or you didn't?</p> <p>8 A. I don't know that I had an opinion one way</p> <p>9 or the other. I just thought that she was</p> <p>10 well-qualified at what she was doing.</p> <p>11 Q. Did (b)(6);(b)(7)(C) ever tell you that he</p> <p>12 thought Simone Grimes had potential to serve as an</p> <p>13 executive?</p> <p>14 A. I don't recall that he did, but that's</p> <p>15 quite possible that he did.</p> <p>16 Q. Well, if he had said that, would that have</p> <p>17 counted for you? Would you have taken that into</p> <p>18 consideration?</p> <p>19 A. Why would I be taking it into</p> <p>20 consideration? Unless there was an executive</p> <p>21 position that she was bidding for, she was going to</p> <p>22 have to go through a competitive --</p>	<p>1 conversations, but I think he thought highly of Ms.</p> <p>2 Grimes' skill set, and he was trying to figure out</p> <p>3 how to advance her if he could. But, again, that's</p> <p>4 different than getting an executive level position</p> <p>5 because nobody gets an executive level position</p> <p>6 without going through a competitive process.</p> <p>7 Q. I thought you just told me that everybody</p> <p>8 knew she wanted to be an executive, and (b)(6);(b)(7)(C) was</p> <p>9 having a career progression path discussion with you.</p> <p>10 That didn't include her becoming an executive, that</p> <p>11 discussion?</p> <p>12 A. Well, not -- because without a position,</p> <p>13 he wouldn't have had that discussion with me. Now,</p> <p>14 if he was contemplating a creation of a new executive</p> <p>15 position, I think he would have had that discussion.</p> <p>16 But I don't recall ever having that a discussion</p> <p>17 about creating an executive level position for her.</p> <p>18 Q. Did (b)(6);(b)(7)(C) ever have a discussion</p> <p>19 with you about creating a career advancement plan for</p> <p>20 Ms. Grimes and his desire to help her do that?</p> <p>21 A. I don't have any recollection that he did.</p> <p>22 MR. PARKER: Would it be all right if we</p>
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<p>1 Q. Well, I meant in taking into consideration</p> <p>2 in forming your own opinion about her potential to</p> <p>3 serve as an executive?</p> <p>4 A. I would have taken any of my direct</p> <p>5 reports' opinion about people into account, yes. I</p> <p>6 took many, many opinions into account in deciding who</p> <p>7 I should appoint as the (b)(6);(b)(7)(C)</p> <p>8 (b)(6);(b)(7)(C) I mean, you know, I probably (b)(6);(b)(7)(C)</p> <p>9 that to the point that, you know -- because, you</p> <p>10 know, it was -- that is a critical position. And so,</p> <p>11 you know, I'm -- and I do have the reputation of</p> <p>12 taking people's opinions into account.</p> <p>13 Q. Did Ms. Grimes ever tell you that she</p> <p>14 would apply for an executive position if OCOO -- if</p> <p>15 you approved it?</p> <p>16 A. I don't recall that she did, but I</p> <p>17 probably assumed that she would.</p> <p>18 Q. Did (b)(6);(b)(7)(C) and/or -- did (b)(6);(b)(7)(C) ever</p> <p>19 tell you that he was trying to determine a career</p> <p>20 advancement path for Ms. Grimes?</p> <p>21 A. Yeah, we had some conversations about</p> <p>22 that, I don't remember the specific content of the</p>	<p>1 took a break, sir?</p> <p>2 MR. FAY: Sure.</p> <p>3 MR. PARKER: I appreciate it.</p> <p>4 (Recess.)</p> <p>5 BY MR. PARKER:</p> <p>6 Q. Mr. Watt, I want to direct your attention,</p> <p>7 after this break, to your conversation with (b)(6)</p> <p>8 (b)(6);(b)(7)(C) concerning the options for managing PMO on</p> <p>9 its transfer to OCOO from DOC.</p> <p>10 Do you recall any feedback you might have</p> <p>11 given him during your conversation?</p> <p>12 A. (b)(5)</p> <p>13 (b)(5) You know, being a manager and a head of a</p> <p>14 division requires people to make decisions. And</p> <p>15 while it's important to listen to input from various</p> <p>16 sources to make sure that you make the right</p> <p>17 decision, you also have an obligation to make a</p> <p>18 decision. And so, you know, I think that the primary</p> <p>19 advice I was giving him -- or gave him on at least</p> <p>20 one or two occasions.</p> <p>21 Q. So there's -- do you remember more than</p> <p>22 one conversation with him about this?</p>

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1 A. Probably more than one. And, you know, not
2 necessarily only about this position, but I mean, if
3 you go back and look at (b)(6);(b)(7)(C)

4 (b)(6);(b)(7)(C)
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18 Q. Does being a good manager require you to
19 get your subordinates to effectuate your vision for
20 the organization?

21 A. At some level, yes.

22 Q. Does it require you to get your

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1 subordinate managers to do what you want them to do
2 in the way you want them to do it?

3 A. No. It requires them to give me their
4 honest input and approach things in a thoughtful way,
5 but not to drag them out forever. And probably in
6 the OCOO space, my vision of the organization, you
7 know, this is about managing the organization and
8 getting things done. It's not about policy
9 decisions, such as DHMG, for example, would be making
10 policy decisions. DOC would be making policy
11 decisions for the enterprises while they are in
12 conservatorship.

13 My vision about that is more pronounced
14 than it is about personnel and operational issues
15 that would be under the (b)(6);(b)(7)(C) I
16 mean, I'm not going down and tell people how to run
17 the parking lot, for example, or how to do parking.
18 I mean, you know, I'm generally aware of it. I have
19 to participate in it and go through the process they
20 set up.

21 So that's why I hesitated a little bit
22 because my vision of how the organization ought to

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1 operate kind of varies from division to division to
2 division, based on what their responsibilities are.
3 I'm very hands-off -- I shouldn't say hands-off. But
4 I'm cognizant of what goes on in the regulatory side,
5 but I never tried to influence a rating for one of
6 the regulated entities, for example.

7 Again, I get all of the exam reports, I
8 review them, I question them sometimes about, you
9 know, how did you get to this result. But I have
10 never -- so, you know, I don't have a vision about
11 how to -- how the examination or regulatory side
12 ought to reach decisions about how they rate our
13 regulated entities, for example.

14 So that is why I was hedging -- why I was
15 hesitating a little bit, because depending on which
16 division you're talking about, my vision would be
17 more pronounced or less pronounced.

18 Q. (b)(6);(b)(7)(C)

19 (b)(6);(b)(7)(C)
20
21
22

1 Q. (b)(6);(b)(7)(C)

2 (b)(6);(b)(7)(C)
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4
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12 Q. Would you be surprised to learn that one
13 of the reasons that (b)(6); decided not to (b)(6);(C)

14 (b)(5);(b)(6);(b)(7)(C)
15
16
17

18 A. I don't know that I would be surprised or
19 not surprised. I mean, none of this was within my
20 knowledge before you just said it.

21 Q. So (b)(6);(C) didn't tell you that?

22 A. No.

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1 Q. And (b)(6); (b)(5); (b)(6); (b)(7)(C)
 2 (b)(5); (b)(6); (b)(7)(C)
 3
 4
 5
 6 A. I don't recall that PMO needed any
 7 (b)(5); (b)(6) because -- with our executive team, we had
 8 pretty much made it clear that PMO was going to serve
 9 the whole enterprise. In fact, one of the
 10 (b)(5)
 11
 12
 13 (b)(5) We
 14 had a PMO office. And so -- but, you know, there was
 15 this view if it's in DOC, it serves only DOC. And
 16 that was not -- so that would be the only reason that
 17 you would be trying to get more visibility for it
 18 that I could think of.
 19 Q. What reason is that again to get more
 20 visibility? I thought I just heard you say that the
 21 decision had been made by the executives to place PMO
 22 in OCOO and that would give it the visibility it

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1 needed. Is that right?
 2 A. That would be the only reason I could
 3 think of that anybody would be talking about giving
 4 it visibility to make sure that everybody knew that
 5 it was available to the entire organization.
 6 Q. Was one of the reasons for establishing an
 7 executive position, that (b)(6) told you about, was to
 8 (b)(5)
 9
 10 A. I don't recall that we had that
 11 discussion, but it may have been. Unless it's
 12 reflected in this document, which I doubt that it is,
 13 it would have been a discussion, which I don't have
 14 any recollection of. But I'm not saying it didn't
 15 happen, I just don't have a recollection of it.
 16 Q. Can you turn to page 3 in the letter
 17 portion of Exhibit Number 1. It's on the top
 18 right-hand corner are the words Page 3 of 3.
 19 A. What is Exhibit No. 1, I'm sorry.
 20 Q. It's the administrative record that you
 21 made the decision upon.
 22 MR. FAY: It's not in this exhibit. I

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1 don't see any numbers.
 2 MR. PARKER: Yeah. Top of -- the
 3 right-hand, July 11, 2017, Page 3 of 3.
 4 MR. FAY: I know, but it says Page 2 of 3,
 5 and the next page is a chart. Page 3 of 3 is not
 6 here.
 7 THE WITNESS: What are you all talking
 8 about?
 9 MR. FAY: He's talking about a page --
 10 MR. PARKER: We may have had a photocopy
 11 problem here. I'm sorry, Mr. Watt.
 12 THE WITNESS: Okay. You're talking about
 13 (b)(6); (b)(7)(C)
 14 MR. PARKER: No, no, no.
 15 MR. FAY: This is the page you don't
 16 have. Let him show it to you.
 17 THE WITNESS: I'm sorry.
 18 MR. PARKER: I apologize for that.
 19 THE WITNESS: What is this a part of?
 20 BY MR. PARKER:
 21 Q. It's the last page in (b)(6); (b)(7)(C)
 22 memorandum.

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1 A. Right before you get to the memorandum of
 2 (b)(6); (b)(7)(C) Is that what you're saying? What
 3 line are you directing me to?
 4 Q. The second paragraph. The second
 5 sentence. This is a letter -- a memorandum from
 6 (b)(6) to you dated July 11, 2017, Page 3 of 3 of that
 7 memorandum, second paragraph. As we discussed during
 8 several of our recent one-on-one meetings,
 9 stakeholder suggestions revealed pros and cons for
 10 each alternative.
 11 A. Okay. I see that.
 12 Q. What alternatives is he talking about?
 13 A. I really don't have any recollection of
 14 what he would have been talking about, to be quite
 15 honest.
 16 Q. Can you find in this document, sir, which
 17 is the administrative record upon which you made your
 18 decision? Any alternatives discussion?
 19 A. That would require me having to read all
 20 the way through it. I don't recall what is in this
 21 document. I know that I reviewed it at some point
 22 and approved it, but --

Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy and their input during the deliberative process.

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1 Q. Perhaps if you take a look at it it will
2 refresh your recollection, sir.
3 A. Okay.
4 Q. Thank you.
5 A. Remind me again what the question is so as
6 I read it I can try to put in context what you're
7 asking.
8 Q. Sure. (b)(6);(b)(7)(C) has presenting options
9 for the leadership of PMO within OCOO, that he's
10 referencing discussions he had with you, and he's
11 talking about the pros and cons of those options, one
12 of which is, of course, creating an executive?
13 A. Am I looking at the same document because
14 the document I'm looking at has no page numbers other
15 than the one page?
16 MR. FAY: You want to look at the memo to
17 you from (b)(6);(C) and it's got three pages.
18 THE WITNESS: This is the (b)(6);(b)(7)(C) memo
19 that you're talking about -- through (b)(6);(b)(7)(C)
20 This is from (b)(6);(b)(7)(C) That's
21 the one that you want me to be reading. Okay. I'm
22 reading the entirely wrong thing. Okay. Let me --

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1 now, I'm sorry, tell me again what the question was.
2 BY MR. PARKER:
3 Q. That's okay, I'll repeat it. I'm trying
4 to determine if (b)(6);(b)(7)(C) has presented you with options
5 for the leadership of PMO within OQA in this
6 administrative record upon which you made your
7 decision to establish an executive?
8 A. I'm sorry. I missed the question.
9 Q. Okay.
10 A. Tell me again what the question is.
11 Q. Sure. Let's establish a few predicates
12 first. We established that this is the record upon
13 which you made the decision to approve (b)(6);(b)(7)(C)
14 request for an executive. Yes?
15 A. Yes.
16 Q. And within this record then, can you
17 please show me the alternatives that you considered,
18 put forward by (b)(6);(b)(7)(C) to reach the decision
19 that appointing an executive was the best way to go?
20 Mr. Watt, I blew up the attachment for you
21 in the enlarged charts here.
22 A. No, I don't need the attachments, I'm just

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1 to read the memo at this point. Is this a document
2 that I can mark?
3 Q. Sure, sir.
4 A. Okay. All right. So if the question
5 is -- ask me the question again. I think I'm in a
6 position to answer it now.
7 Q. Which alternatives to these two appointing
8 an executive to OCOO does (b)(6);(b)(7)(C) lay out for
9 you there?
10 (b)(5)
11
12
13
14
15
16
17
18 (b)(5) were fully explored
19 with stakeholders and given serious consideration.
20 As we discussed during several of our
21 recent one-on-one meetings, stakeholder discussions
22 reveal pros and cons of each alternative. After

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1 weighing these pros and cons on balance, I concluded
2 that the best least disruptive alternative is to
3 request an additional executive position. While
4 concurrently laying out a longer term view of a more
5 optimal OCOO management structure that could evolve
6 over time.
7 So, I mean, I don't know that I got into a
8 discussion with him about the specific alternatives.
9 What I wanted to be -- what I think he was trying to
10 make clear to me is that he had evaluated those
11 alternatives, and I certainly wasn't going back and
12 trying to reevaluate those alternatives. It was
13 probably important to me that alternatives got
14 evaluated, clearly, but what those alternatives were,
15 I didn't think I needed to have extensive discussion
16 about.
17 Q. Would you like to know what they were? We
18 interviewed (b)(6);(b)(7)(C) yesterday. Would you like to know
19 what they were?
20 A. Well, it's a little late for me to know
21 now. That's nothing I can do about it at this point.
22 Q. Well, actually you probably could,

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1 couldn't you?
 2 A. I don't know whether I can or not. I have
 3 no idea what the status of any of this is since I
 4 have been completely removed from this process for
 5 now 60 days or so, maybe even more than that. But,
 6 you know, I'm out of this process, so I have no idea.
 7 And with respect to this position, I wouldn't -- I
 8 had already -- I already delegated it before I was
 9 moved removed from the process.
 10 So, you know, for me to know now what the
 11 considerations were when I really am not in a
 12 position to take them into account really wouldn't be
 13 particularly helpful to me.
 14 Q. I know you delegated the decision-making
 15 on that position, but you could take that authority
 16 back, couldn't you?
 17 A. Theoretically, but that ain't likely to
 18 happen. It's not likely to happen. You know, I got,
 19 what, 85 days now in my tenure as the director of
 20 this agency. I can't imagine any set of
 21 circumstances where I would undelegate that decision.
 22 Q. (b)(6);(b)(7)(C) told us last night that the

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1 reason -- (b)(6);(b)(7)(C)
 2 (b)(6);(b)(7)(C)
 3
 4
 5
 6
 7
 8 Does that sound like (b)(6);(b)(7)(C) to
 9 you?
 10 A. Well, I think he covers that when he
 11 says -- after weighing these pros and cons on
 12 balance, (b)(5)
 13 (b)(5)
 14
 15
 16 Now, what was behind that statement, I
 17 can't tell you. But, you know, for me to say that's
 18 (b)(6);(b)(7)(C) I don't
 19 have the context for me to be able to judge that.
 20 Q. I can give you the context. We
 21 interviewed (b)(6);(b)(7)(C) and asked him why he
 22 recommended an executive position, and it seemed that

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1 (b)(6);(b)(7)(C)
 2
 3 OBFM or OTIM. And I'm wondering if you think that's
 4 a good reason to create an executive position?
 5 A. Look, I based my decision on this memo.
 6 Whether (b)(6);(b)(7)(C) I've
 7 evaluated that, what, three times now. I've given
 8 (b)(6);(b)(7)(C)
 9 (b)(6);(b)(7)(C) I grant you that.
 10 (b)(6);(b)(7)(C)
 11 (b)(6);(b)(7)(C)
 12
 13
 14 (b)(6);(b)(7)(C) You know, I just -- I don't have an
 15 opinion about whether that's (b)(6);(b)(7)(C)
 16 I mean, sometimes -- if you run into a wall to
 17 continue to bang your head against that wall is not a
 18 good idea. It's sometimes better to back up and go
 19 around and accomplish what you're trying to
 20 accomplish in a different way. And that's (b)(6);(b)(7)(C)
 21 (b)(6);(b)(7)(C) I've done it many times
 22 myself.

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1 Q. This would cause the creation of a new
 2 executive position, and be contrary to the buy-out
 3 and the policy, unofficial, official, of the agency
 4 of reducing -- the agency has gone from 66 LLs before
 5 the buy-out to 54 thereafter to 49 now. And now
 6 (b)(6);(b)(7)(C)
 7
 8
 9 I'm wondering if you think, sir, that is a
 10 good reason to create an executive position?
 11 A. I think the reasons that I set out in this
 12 memo are good reasons to create an executive
 13 position, if I hadn't, I wouldn't have approved it.
 14 And I think (b)(6);(b)(7)(C) now that I've gone back and read
 15 through it -- (b)(6);(b)(7)(C)
 16 (b)(6);(b)(7)(C)
 17
 18
 19 that is a short term solution that will solve the
 20 problem.
 21 And this memo, actually as I've read it,
 22 reflects the difficulty that he was wrestling with to

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 4

Part 2 of 3

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1 make this decision. And those are difficult
2 decisions all the time. I mean, we're not measuring
3 0 versus 100, we're often measuring 49 versus 51, and
4 you're trying to make a decision about what you
5 believe to be in the best interest of the
6 organization. And I have no doubt in my mind that
7 (b)(6);(b)(7)(C) was trying to figure out what was in the best
8 interest of the organization.

9 Now, what all he took into account, I
10 can't tell you. But if the objective is to have me
11 say he's a (b)(6);(b)(7)(C) because he was vexing
12 about it, I vex about a lot of decisions and, you
13 know, at some point you have to make a decision. It
14 is not always a perfect decision. But a 48/52
15 decision, a 49/51 decision quite often is the mark of
16 what managers have to deal with.

17 Q. So do I understand you correctly to say,
18 sir, that you didn't go behind any of the
19 representations in the document that you just read to
20 determine whether or not to approve (b)(6);(b)(7)(C)
21 recommendation?

22 A. I did not. Yeah, you understood that.

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1 Q. And so are you limited, sir, in
2 determining whether or not to create a new executive
3 to the matters in this letter or were there other
4 options open to you?

5 A. You mean about creating a new executive?

6 Q. Yes, sir.

7 A. I'm sure there would have been other
8 options available to me if I had changed the policy,
9 and I have the authority to change the --

10 Q. Couldn't you have asked (b)(6);(b)(7)(C) whether
11 there were other options available?

12 A. Obviously, he's --

13 Q. Because there's a --

14 A. Obviously he's taken into account a bunch
15 of options and been considering this for a long
16 period of time. I mean, that would have just
17 prolonged the process even more.

18 Q. But you weren't curious to know what the
19 options were? You weren't curious about that? You
20 were going to create an executive position, it seems
21 like quite a thing. You weren't curious at all, sir?

22 A. Is that a question?

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1 Q. Yes or no. Were you curious or not, sir?

2 A. I doubt that I was because I don't
3 typically manage at that level. But I can't say
4 whether I was curious or not because I don't have
5 recollection of this. I obviously made a decision
6 when I got this memorandum, and I thought it was a
7 sound decision, and I continue to think it was a
8 sound decision.

9 Q. If you had -- I'm sorry, sir. So if you
10 had -- would you have made the same decision if you
11 knew that (b)(6);(b)(7)(C) (b)(5);(b)(6);(b)(7)(C)
12 (b)(5);(b)(6);(b)(7)(C) (b)(6);(b)(7)(C)
13 on the flow chart that I showed you, which is marked
14 as Exhibit No. 1 -- in Exhibit No. 1?

15 A. I would have made the same decision if
16 (b)(6);(b)(7)(C) recommended it.

17 Q. I don't understand the answer. Could you
18 explain that to me.

19 A. If (b)(6) recommended what he did, I would
20 have probably taken his recommendation. If he had
21 recommended going a different way, I probably would
22 have taken his recommendation. If he had said a

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1 better way to do this for the organization is to put
2 (b)(6);(b)(7)(C) over it, that would have been a
3 rational decision, but --

4 Q. It would have saved creating a new
5 executive, right? She's already an executive?

6 A. It would have done that, yes, but it would
7 have not necessarily been the best thing for the
8 organization, and that's the criteria I used.

9 Q. Why would it not be the best thing, sir?

10 A. I'm not saying it wouldn't have been, but
11 obviously (b)(6);(b)(7)(C) didn't think that it was the best
12 option. And I wasn't going behind (b)(6);(b)(7)(C) and looking
13 at multiple different options to second guess his
14 recommendation.

15 Q. Do you --

16 A. That is not the way I managed in this
17 agency.

18 Q. Is (b)(6);(b)(7)(C) Do you
19 think she's a (b)(6);(b)(7)(C) sir?

20 A. (b)(6);(b)(7)(C)
21 She's had some serious challenges, organizational
22 challenges that she inherited, and I think she has

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1 methodically tried to reorganize, organize her teams
2 in a way that get the best results.
3 Q. She recommended that (b)(6) consider
4 (b)(5);(b)(6);(b)(7)(C)
5
6
7 (b)(5);(b)(6);(b)(7)(C) But I'm surprised
8 to learn that he didn't discuss it with you. Don't
9 you think he should have discussed it with you?
10 A. No, I don't think he should have discussed
11 it with me because I have no idea why (b)(5);(b)(6);(b)(7)(C)
12 (b)(5);(b)(6);(b)(7)(C)
13 (b)(5);(b)(6);(b)(7)(C) -- I respect opinions
14 when it comes to what is happening in the (b)(6);(b)(7)(C)
15 (b)(6);(b)(7)(C) And I've approved many of her
16 recommendations, but I would not have given much
17 weight to her opinion in (b)(6);(b)(7)(C) shop.
18 Q. The management structure is management
19 structure. You just said she's met a couple of
20 challenges and (b)(6);(b)(7)(C) so I would
21 see why (b)(6);(b)(7)(C) would take her opinion, couldn't you?
22 A. I'm not sure where you're driving.

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1 Q. I'm driving, sir --
2 A. I'm trying to be responsive to your
3 questions, but you seem to have some preconceived
4 notion of where you're trying to get to. And I want
5 to be responsive to your questions, I'm not trying to
6 be uncooperative, but --
7 Q. I'm trying to understand --
8 A. But --
9 Q. I understand. I'm trying to understand
10 why you would approve an executive position given
11 that there are multiple options to it, recommended by
12 senior managers in the organization, and you were
13 not -- why you would do that in the face of all of
14 these options? I don't understand that. I just
15 don't get it.
16 MR. FAY: Counsel, I'm not going to say
17 much here. The difficulty is the fact that you're
18 testifying so much, it confuses the question. So the
19 questions are great. The testimony from you, not so
20 great. And you're testifying about all these
21 options, et cetera, et cetera, and Mr. Watt has told
22 you what he knows and what he doesn't know.

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1 THE WITNESS: I'm just telling you, my
2 decision was based on this recommendation. I think
3 it was a good decision. I don't know what all the
4 options (b)(6);(b)(7)(C) considered. Obviously, he considered
5 them, which I think a good manager does. But at some
6 point you have to make your own recommendation and
7 decision about what is in the best interest of the
8 organization, and make a recommendation.
9 You know, I doubt that you will find any
10 time in the almost 5 years that I've been here where
11 I've gone down and just, you know, tried to
12 micromanage my direct reports. That is just not the
13 way that I -- especially on operational issues. Now,
14 policy issues, we give and take, we collaborate, we
15 argue, we fight, we fuss, and at some point if
16 there's divisions of opinion, I have to make a
17 decision. They are difficult decisions to make.
18 And I respect the ability of my managers,
19 my executive team, to make good decisions. I got
20 enough decisions that I have to make on a day-to-day
21 basis without going down in their shop and second
22 guessing every decision that they make. And I just

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1 don't do that. And if you think that's
2 irresponsible, I mean, you know, you just have to
3 think that, but that's just not the way I manage.
4 BY MR. PARKER:
5 Q. In light of what I told you today of the
6 options that were available at the time to manage PMO
7 and OQA, is it still your opinion that appointing an
8 executive was necessary?
9 A. It is my opinion that it was the best
10 option for the organization. Necessary -- I don't
11 know what you mean by necessary, other than in the
12 context of what I considered -- and what (b)(6);(b)(7)(C)
13 recommended and what I considered to be in the best
14 interest of the organization.
15 Q. What I mean by necessary, there were
16 already 10 executives in the Office of the (b)(6);(b)(7)(C)
17 (b)(6);(b)(7)(C)
18 (b)(6);(b)(7)(C)
19
20 thing. Is it still necessary, in light of that
21 information, to create yet another executive after
22 the buy-out?

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1 A. Well, I didn't make my decision based on
2 that definition of necessary. I made my decision
3 based on what was in the best interest of the
4 organization.
5 Now, you can second guess the basis on
6 which my -- but I never used the word necessary in my
7 evaluation of this position. And your definition in
8 this case may be what happens in quite a number of
9 cases. The IG's definition of what's necessary and
10 my definition of what's necessary don't always
11 correspond, when they do, I try to take those into
12 account. But if you're trying to get me to say that
13 I would have done this a different way, I'm telling
14 you, based on the information I had at that time, I
15 would have made the very decision that I made.
16 And having seen how (b)(6);(b)(7)(C) was wrestling
17 with this, and approaching it, I believe that he was
18 approaching it in a reasonable way.
19 Q. You made your decision based upon what was
20 in the best interest of the organization, do I
21 understand that correctly?
22 A. What I perceived and (b)(6);(b)(7)(C) perceived to be

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1 in the best interest of his organization in his
2 division, and what I believed was in the best
3 interest of the organization, yes.
4 Q. Now that I provided you with new
5 information from (b)(6);(b)(7)(C) that was not available to you,
6 do you still think that your decision is the one
7 that's in the best interest of the organization?
8 A. I don't know the answer to that, and I'm
9 never going to have the opportunity to have to cross
10 that bridge. All I can tell you was that on 7-14 --
11 2017, I thought this was in the best interest of the
12 organization. And apparently on 7-11-17, (b)(6);(b)(7)(C)
13 thought it was in the best interest of his division.
14 You know, for me to go back and start
15 hypothetically saying, you know, would I do this
16 different now -- I don't have the capacity to do it
17 different now, even if I were inclined. So that's
18 just not something that I feel comfortable engaging
19 in.
20 Q. Did you have occasion to discuss the
21 creation of an executive position in the Office of
22 (b)(6);(b)(7)(C)

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1 A. Yes.
2 Q. How many times have you spoken with her
3 about that, sir?
4 A. A number of times. She has been
5 advocating for it. I have the file on my desk now.
6 We still haven't made a decision about it.
7 Q. I see. She recommended to you and she
8 gave you a memorandum laying out her reason for
9 creating that position?
10 A. Yes.
11 Q. Did she have a conversation or two with
12 you about her recommendation before she presented you
13 with the memo?
14 A. Yes.
15 Q. So much the same thing that happened with
16 (b)(6);(b)(7)(C)
17 A. Yes.
18 Q. And did you exceed to the creation of the
19 position an executive --
20 A. I haven't yet, but I might. We haven't
21 made a final decision on that, and (b)(6);(b)(7)(C) knows the
22 status of that.

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1 Q. The record seems to indicate that you
2 started talking with her about this in November
3 of 2017, so about 11 1/2 months ago. That is a
4 pretty long time to make a decision, isn't it?
5 A. Not -- I certainly haven't had a
6 recommendation from her in any kind of written form.
7 I'm not even sure I have one now, to be quite honest.
8 But I've got a bunch of papers in a file that, to be
9 quite honest, a lot of other things have distracted
10 my attention from my ability to make a lot of these
11 decisions.
12 So, you know -- you know, she's got --
13 again, a person that is perceived to be a very
14 qualified person. It has some of the same parallels
15 with this. But the creation of a new executive
16 position is something that we don't approach lightly
17 in this agency, and I never have and I think you go
18 back and count the number that I've created, you
19 know, you'll find that that's been the case all
20 along.
21 Q. So what is the position that she wanted
22 you to create?

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<p>1 A. That (b)(6);(b)(7)(C) wants me to create?</p> <p>2 Q. Yes, sir.</p> <p>3 A. She wants -- she wants the person who is</p> <p>4 (b)(6);(b)(7)(C) to</p> <p>5 be an executive position. And I'm not sure that it</p> <p>6 meets the criteria or doesn't meet the criteria. I</p> <p>7 haven't made a decision about it.</p> <p>8 Q. What factors are you considering in that</p> <p>9 decision, sir?</p> <p>10 A. The same factors that are considered in</p> <p>11 this --</p> <p>12 Q. Which are?</p> <p>13 A. The responsibilities of the position. How</p> <p>14 many people would be reporting to the position. You</p> <p>15 know, a number of factors that I would consider, but,</p> <p>16 you know, I'm not sure how that decision is all that</p> <p>17 relevant to this discussion. But I concede that</p> <p>18 there are parallels here, but that is a decision that</p> <p>19 hadn't even yet been made.</p> <p>20 Q. So I'd like to show you what (b)(6);(b)(7)(C)</p> <p>21 provided to us, which is the (b)(6);(b)(7)(C) organizational</p> <p>22 chart. Can you mark this next, please, ma'am.</p>	<p>1 try to take her opinions into account. But that</p> <p>2 doesn't necessarily mean that I approve everything</p> <p>3 that she brings to me. And I have to perceive that</p> <p>4 it is in the best interest of the organization before</p> <p>5 I approve it.</p> <p>6 MR. PARKER: Can we go on break, ma'am?</p> <p>7 (Recess).</p> <p>8 MR. PARKER: I'd like you to mark an</p> <p>9 exhibit for me, please.</p> <p>10 (Exhibit No. 5 was marked for</p> <p>11 identification.)</p> <p>12 BY MR. PARKER:</p> <p>13 Q. Sir, I show you Exhibit Number 5, it's a</p> <p>14 request from (b)(6);(b)(7)(C) to establish an executive</p> <p>15 position in (b)(6);(b)(7)(C) and it's dated November of 2017.</p> <p>16 Do you recognize it?</p> <p>17 A. Yes.</p> <p>18 Q. Did you act on that request, sir?</p> <p>19 A. Yes, I acted on this request at that time.</p> <p>20 She since renewed the request. I denied the request</p> <p>21 at that time.</p> <p>22 Q. Yes, sir. Can you say why you denied the</p>
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<p>1 (Exhibit No. 4 was marked for</p> <p>2 identification.)</p> <p>3 BY MR. PARKER:</p> <p>4 Q. Where would the executive go on that</p> <p>5 chart, sir?</p> <p>6 A. I have no idea. You know, I assume it</p> <p>7 would be on a line that would report directly to</p> <p>8 (b)(6);(b)(7)(C)</p> <p>9 Q. How many people would then be reporting to</p> <p>10 the proposed executive, sir?</p> <p>11 A. I have no idea.</p> <p>12 Q. Can you count the boxes?</p> <p>13 A. Well, it depend on how she organized it.</p> <p>14 This is her existing organizational chart, how she</p> <p>15 would propose to organize it wouldn't necessarily be</p> <p>16 reflected on this chart. So I can't tell you how</p> <p>17 many people would be reporting to this person.</p> <p>18 Did she also give you a proposed</p> <p>19 organization chart? I mean, she's lobbying people --</p> <p>20 I don't know why lobbying the IG. You know, I mean,</p> <p>21 I'm not blaming her, she has strong feelings about it</p> <p>22 and she likes her opinions taken into account. And I</p>	<p>1 request, sir?</p> <p>2 A. I didn't think she submitted compelling</p> <p>3 reasons for it, and that I didn't think it was in the</p> <p>4 best interest of the organization at the time.</p> <p>5 Q. Did she in her request to you represent</p> <p>6 that the individual -- excuse me, that the office</p> <p>7 that she wanted to appoint to an executive position</p> <p>8 represented the agency to executives at the regulated</p> <p>9 entities, that is the FHLBanks and Fannie Mae and</p> <p>10 Freddie Mac?</p> <p>11 A. Yes, that is true of a number of people in</p> <p>12 our organization that represent the agency at the</p> <p>13 regulated entities. That certainly wouldn't be a</p> <p>14 compelling reason.</p> <p>15 Q. What about coupled with the fact that the</p> <p>16 individual had to have business acumen to understand</p> <p>17 the business of the agency and how (b)(6);(b)(7)(C)</p> <p>18 (b)(6);(b)(7)(C) would work with the business of the agency?</p> <p>19 A. I think that's also true of virtually</p> <p>20 anybody that we sent out, not necessarily about (b)(6);(b)(7)(C)</p> <p>21 (b)(6);(b)(7)(C) but about whatever they are examining</p> <p>22 about. That wouldn't --</p>

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1 Q. What about adding those two things, which
2 by themselves, you indicated, are not persuasive with
3 the fact that the individual had to work in the
4 (b)(6);(b)(7)(C) environment, which takes a
5 certain amount of political acumen and savvy?

6 A. Well, I acknowledged that, but just about
7 everything we do requires that also. I don't think
8 that -- it is somewhat unique to the (b)(6);(b)(7)(C) it
9 is true, but it is also true that doing something on
10 criteria for (b)(6);(b)(7)(C) that is different than the criteria
11 that I would apply in other spaces could undermine a
12 number of things that we've tried to accomplish here.

13 I mean, it would be -- the first thing
14 that people would say is that you're giving
15 preference to (b)(6);(b)(7)(C) I mean, I'm
16 just free-flowing about the kinds of considerations
17 that I have to take into account. Now (b)(6);(b)(7)(C) on
18 the other hand, doesn't necessarily have to take that
19 into account. She's just thinking about the
20 efficiency of (b)(6);(b)(7)(C) organization.

21 My responsibility is to think about it on
22 a broader basis. And so in that sense, I'm saying

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1 the same thing that I have said before with reference
2 to (b)(6);(b)(7)(C) position. I give a lot of discretion
3 about how people manage in their own space. But when
4 it comes to creation of positions, I have to think
5 about the totality of the organization.

6 Q. Did (b)(6);(b)(7)(C) mention to you, sir, that
7 because she's the (b)(6);(b)(7)(C) when
8 there's a problem or a discontent at one of the
9 regulated entities being examined that she gets the
10 phone call and the individual on the ground who is
11 the supervising examiner doesn't because that person
12 is not an executive?

13 A. Yes, she mentioned that. She's mentioned
14 it (b)(6);(b)(7)(C) But, you know, my response
15 to that is, the buck stops at the top in every
16 division. And if people don't like what the people
17 under you do -- and I think if you actually go back
18 and look at (b)(6);(b)(7)(C)
19 (b)(6);(b)(7)(C) one of the things I've said to
20 her is, I want you to be in the early years of
21 this -- of the implementation of an examination
22 program (b)(6);(b)(7)(C) where

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1 there is not another single agency in government that
2 has a set -- has developed examination protocols. I
3 (b)(6);(b)(7)(C) to be
4 hands-on. I don't want you to delegate too much of
5 that responsibility.

6 So those are the kinds of things that I'm
7 trying to -- because (b)(6);(b)(7)(C) is a brand new
8 organization, and everything we do in that space, I
9 can assure you, is watched.

10 MR. PARKER: Can you mark this exhibit
11 for me next, please, ma'am.

12 (Exhibit No. 6 was marked for
13 identification.)

14 BY MR. PARKER:

15 Q. Mr. Watt, this is a second request dated
16 5-29-18, for a creation of an executive position,
17 about which we just spoke, (b)(6);(b)(7)(C) Have you seen
18 it, sir?

19 A. I don't know whether this is one of the
20 things that's in my file or not. I've got a file on
21 this on my desk. I haven't reviewed all of the
22 things that are in that file, but this is not

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1 addressed to me. This is from (b)(6);(b)(7)(C) to (b)(6);(b)(7)(C)
2 (b)(6);(b)(7)(C) it's not --

3 Q. Isn't that because (b)(6);(b)(7)(C)
4 (b)(6);(b)(7)(C) and under the process the requests
5 have to go through him?

6 A. No.

7 Q. That's what (b)(6);(b)(7)(C) told us. Is he wrong?

8 A. Well, I don't think every request of this
9 kind has to go through (b)(6);(b)(7)(C) I mean, if she's
10 trying to create a new executive position, she might
11 be seeking (b)(6);(b)(7)(C) opinion about it and, quote,
12 unquote, (b)(6);(b)(7)(C) But there's no requirement
13 that it go through (b)(6);(b)(7)(C) There's no requirement
14 that (b)(6);(b)(7)(C) send a request for a new
15 executive position if she wanted to create one
16 through (b)(6);(b)(7)(C) Not that I'm aware of. You know,
17 that may be the way it has been done in the past.

18 But I don't know that I have seen this
19 request in this form. It may be in the file that is
20 on my desk. But we're talking about something that
21 is really under active -- under consideration. I
22 shouldn't say active consideration because a lot of

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<p>1 things have deferred my attention from a lot of</p> <p>2 things on my desk. But I haven't made a decision</p> <p>3 about whether to create an executive level position</p> <p>4 (b)(6);(b)(7)(C) It is a very difficult decision, and I know</p> <p>5 that whatever I do they are going to be detractors,</p> <p>6 and I need to be satisfied in my own mind that I can</p> <p>7 justify that the creation or non-creation of it is</p> <p>8 the right decision for the organization, because that</p> <p>9 is my ultimate responsibility.</p> <p>10 Q. I understand.</p> <p>11 MR. PARKER: Can you mark this next,</p> <p>12 please, ma'am.</p> <p>13 (Exhibit No. 7 was marked for</p> <p>14 identification.)</p> <p>15 BY MR. PARKER:</p> <p>16 Q. Can you describe that document for the</p> <p>17 record, please.</p> <p>18 A. This is a memorandum from (b)(6);(b)(7)(C) to me,</p> <p>19 dated July 27, 2018.</p> <p>20 Q. What does it concern, sir?</p> <p>21 A. Request to designate an executive level</p> <p>22 (b)(6);(b)(7)(C) EL-14</p>	<p>1 potentially create some precedent that -- I mean, I</p> <p>2 think part of the reason I haven't acted on this is</p> <p>3 there have been multiple ideas to try to move it</p> <p>4 forward. And the most recent one of which just came</p> <p>5 to me a couple weeks ago, not a different idea, but a</p> <p>6 very long memo that (b)(6);(b)(7)(C) wrote justifying why this</p> <p>7 was an executive level position. (b)(6);(b)(7)(C)</p> <p>8 about it.</p> <p>9 Q. So I'll mark that one for you now.</p> <p>10 MR. PARKER: Would you mark this, ma'am.</p> <p>11 (Exhibit No. 8 was marked for</p> <p>12 identification.)</p> <p>13 BY MR. PARKER:</p> <p>14 Q. Is that the memo, September 26, 2018?</p> <p>15 That's a comparison of the position that she wants</p> <p>16 to -- she wants to create with the (b)(6);(b)(7)(C)</p> <p>17 (b)(6);(b)(7)(C) I'm reading from the top. Do you recognize</p> <p>18 that, sir?</p> <p>19 A. I recognize it in the sense that I know I</p> <p>20 have received it. It's dated September 26th. And I</p> <p>21 know -- and I believe I have a copy of it in the file</p> <p>22 that I have on my desk, but I have not reviewed it.</p>
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<p>1 vacant position to LL associate director position.</p> <p>2 Q. Do you know the genesis of that document,</p> <p>3 sir? Do you understand why she did that?</p> <p>4 A. I think she's been trying to figure out</p> <p>5 how to accomplish what she -- what was not approved</p> <p>6 directly, how she might be able to accomplish it</p> <p>7 indirectly. And by going this route, as I understood</p> <p>8 it from talking to her, it could be done without</p> <p>9 necessarily creating an executive level position</p> <p>10 because you would be putting -- and I have reviewed</p> <p>11 this one because I marked it up and remember asking a</p> <p>12 bunch of questions about it. How would this work?</p> <p>13 Q. Does it help her case?</p> <p>14 A. I don't know whether it helps her case or</p> <p>15 not. It helps -- it would help in the sense that if</p> <p>16 we didn't have to create an executive level position,</p> <p>17 we wouldn't have to -- we wouldn't have to deal with</p> <p>18 that. But it would certainly have some budget</p> <p>19 implications that would have to be taken into account</p> <p>20 because by doing it this way the person who will be</p> <p>21 doing these responsibilities would be paid more than</p> <p>22 they are paid now. And it would -- and it could</p>	<p>1 So I don't recognize it in the sense that I can tell</p> <p>2 you that I have reviewed it. But I know that she</p> <p>3 gave me a document, which she said to me represented</p> <p>4 a significant amount of research that backs up her</p> <p>5 position that this -- six pages of it. And she's now</p> <p>6 lobbying me through the IG, it might give you some</p> <p>7 indication of how strongly she feels about it.</p> <p>8 I mean, I know how strongly she feels</p> <p>9 about it, but that's not going to, you know -- I</p> <p>10 still have to do what is in the interest of the</p> <p>11 organization. And as long as I'm the director, I</p> <p>12 will continue to apply that as my criteria. That's</p> <p>13 all I can tell you.</p> <p>14 Q. Well, I guess what I'm trying to figure</p> <p>15 out is, how is it that all of the research and</p> <p>16 documentation and argumentation and comparisons that</p> <p>17 have been presented to you with respect to the (b)(6);(b)(7)(C)</p> <p>18 position over the period of 11 1/2 months is not a</p> <p>19 compelling case, but what's been marked as Exhibit 1,</p> <p>20 which is three pages, that doesn't lay out any</p> <p>21 options and doesn't really say why an executive is</p> <p>22 necessary -- is a compelling case? I don't get it.</p>

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<p>1 Can you explain that?</p> <p>2 A. Well, part of it I can explain in the same</p> <p>3 context that I -- remember you asked me a question</p> <p>4 and I hesitated about the answer, and then I talked</p> <p>5 about different things and different divisions? I'd</p> <p>6 be the first to tell you, I am probably more</p> <p>7 hands-off in the operation side. But when it comes</p> <p>8 to things like (b)(6);(b)(7)(C) I mean, I was on the committee</p> <p>9 when (b)(6);(b)(7)(C) legislation was passed in</p> <p>10 Congress. I voted for it. I was one of the people</p> <p>11 who crafted it.</p> <p>12 And I view a lot of the decisions that get</p> <p>13 made there as policy, not operational, which is why I</p> <p>14 say, okay, we just created an (b)(6);(b)(7)(C) operation -- well,</p> <p>15 there was an organization, we just filled the</p> <p>16 position a couple years ago, I don't know when, maybe</p> <p>17 it was 3 years ago. I filled the position. I was</p> <p>18 very methodical about who I selected. A lot more</p> <p>19 methodical than some other positions that I either</p> <p>20 inherited or selected people for.</p> <p>21 And I know that -- and I have</p> <p>22 affirmatively, in writing, said to (b)(6);(b)(7)(C) I want</p>	<p>1 Q. Well, how many executives are there in</p> <p>2 (b)(6);(b)(7)(C)</p> <p>3 A. (b)(6);(b)(7)(C)</p> <p>4 Q. And the request is to make a (b)(6);(b)(7)(C) for a</p> <p>5 lot of the reasons that she laid out, correct?</p> <p>6 A. Well, and I may do that. I don't know</p> <p>7 that I won't do that.</p> <p>8 Q. You haven't for the last 10 1/2 months,</p> <p>9 that's why I'm asking you.</p> <p>10 A. Well --</p> <p>11 Q. And she's giving you four proposals. And</p> <p>12 she's taken the time to write what she told me --</p> <p>13 A. Thank you for complimenting me on being so</p> <p>14 deliberate and thoughtful in my approach. I don't</p> <p>15 know how -- I'm not sure what point you're trying to</p> <p>16 make, Rich.</p> <p>17 Q. Sir --</p> <p>18 A. I hear where you're going. Unless you</p> <p>19 want to substitute my judgment for -- you didn't like</p> <p>20 my opinion here where I created it, and you</p> <p>21 apparently don't like my opinion here where I haven't</p> <p>22 created it. So, you know, that's exactly the kind of</p>
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<p>1 you to be hands-on in making a lot of these</p> <p>2 decisions. So to say that this is a complete analogy</p> <p>3 to what was done in (b)(6);(b)(7)(C) I was the first to</p> <p>4 acknowledge to you that there were similarities.</p> <p>5 There are similarities.</p> <p>6 But the notion that I would apply the same</p> <p>7 kind of rigor to (b)(6);(b)(7)(C) that I would apply possibly to</p> <p>8 DHMG or to DOC or to OMWI, you know, there are</p> <p>9 differentials, and it's my responsibility as the</p> <p>10 director to understand when those differential</p> <p>11 considerations have to be taken into account.</p> <p>12 Because I know in this space, in the OMWI space, in</p> <p>13 the DOC space, everything we do is going to be second</p> <p>14 guessed, third guessed, split, cut, diced, you know.</p> <p>15 And so when I make a decision on those</p> <p>16 things, I do tend to be a lot more hands-on yeah.</p> <p>17 So, yeah, there are parallels. I was the first to</p> <p>18 acknowledge that in an earlier question that you</p> <p>19 asked. But to say that this is exactly the same</p> <p>20 situation, I think you have missed a bunch. And, you</p> <p>21 know, everything that appears similar is not the</p> <p>22 same.</p>	<p>1 scrutiny we get on just about everything because</p> <p>2 whether we do it or don't do it, we get criticized.</p> <p>3 Do you see what I'm saying? So --</p> <p>4 Q. Let me just --</p> <p>5 A. -- I don't think --</p> <p>6 Q. Let me, please --</p> <p>7 A. I don't think I made a decision over here,</p> <p>8 and I don't believe when I make a decision over here</p> <p>9 it will be a bad decision. Now, will it be</p> <p>10 100 percent versus 51/48, 51/49, 52/48. It will be a</p> <p>11 close decision regardless, because I understand the</p> <p>12 arguments that (b)(6);(b)(7)(C) is making.</p> <p>13 But I also understand that there are</p> <p>14 implications of this that go beyond the arguments</p> <p>15 that she's making, and it's my responsibility to take</p> <p>16 those considerations into account.</p> <p>17 Q. Let me just make the record clear that I</p> <p>18 don't have an opinion about any of your decisions.</p> <p>19 So, please understand that. I don't have any opinion</p> <p>20 about good or bad.</p> <p>21 A. You seem to be very much critical --</p> <p>22 Q. Sir, sir.</p>

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<p>1 A. -- critical of this decision, while at the</p> <p>2 same time telling me I'm making a mistake not to make</p> <p>3 the same mistake that you --</p> <p>4 Q. You can draw whatever --</p> <p>5 A. That's what you seem to be saying.</p> <p>6 Q. Sir --</p> <p>7 A. I don't know where else this is going.</p> <p>8 Q. Sir, I just told you I don't have an</p> <p>9 opinion, and you can draw whatever implications you</p> <p>10 wish, but I don't have an opinion.</p> <p>11 A. I appreciate it. I'm glad you don't.</p> <p>12 MR. FAY: Can I ask a point of</p> <p>13 information.</p> <p>14 MR. PARKER: Please.</p> <p>15 MR. FAY: With regard to all of the</p> <p>16 information that you've presented here concerning (b)(6)</p> <p>17 (b)(6);(b)(7)(C) desire to have an executive position, were</p> <p>18 there any hotline complaints about this?</p> <p>19 MR. PARKER: No, sir.</p> <p>20 MR. FAY: Okay.</p> <p>21 MR. PARKER: Not to my knowledge.</p> <p>22 MR. FAY: All right. I thought we were</p>	<p>1 do engenders scrutiny. That's the very point that I</p> <p>2 have been trying to make to you, which is why -- and</p> <p>3 now an increased amount of scrutiny because anything</p> <p>4 I do in the last 90 days of my tenure here everybody</p> <p>5 is going to say I'm stacking the deck for the next</p> <p>6 director. So there's even an additional factor that</p> <p>7 has to be taken into account in every decision that I</p> <p>8 make, and we're making these decisions every day.</p> <p>9 This is not the only decision that we have to make.</p> <p>10 So, you know, forgive me for being more</p> <p>11 cautious now than I might have been. But these</p> <p>12 are -- from my opinion, they are two different</p> <p>13 circumstances and I'm applying the criteria that I</p> <p>14 think is appropriate in both of them.</p> <p>15 Q. So one last question and then I'll turn it</p> <p>16 over to Ms. Choy. With respect to the (b)(6);(b)(7)(C) executive</p> <p>17 position, is there any reason why that job couldn't</p> <p>18 be done by an EL-15 and you can plus-up the pay of?</p> <p>19 A. I don't know the answer to that because I</p> <p>20 haven't evaluated it. It would have the same budget</p> <p>21 implications if you plussed up the pay that this most</p> <p>22 recent (b)(6);(b)(7)(C) proposal would have, and I would have to</p>
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<p>1 here to talk about hotline complaints.</p> <p>2 THE WITNESS: Let me just add one other</p> <p>3 factor. You say, would you make the same decision</p> <p>4 today if you were making the decision? Well, I'm</p> <p>5 never going to make this decision. I still got to</p> <p>6 make this one. And I have the history now of having</p> <p>7 made this one that I have to take into account in</p> <p>8 making this decision. And how I will weigh that, I</p> <p>9 haven't really taken a step back and tried to figure</p> <p>10 that out, to be quite honest. But I will tell you</p> <p>11 one thing, I'm going to be very deliberate about it</p> <p>12 because I know whatever I do they are going to be</p> <p>13 unhappy people.</p> <p>14 BY MR. PARKER:</p> <p>15 Q. And before you gave your answer there,</p> <p>16 sir, my next question was, making one new executive</p> <p>17 in (b)(6);(b)(7)(C) and making one new executive in OCOO where</p> <p>18 there are already 10 executives and where there is</p> <p>19 only one in (b)(6);(b)(7)(C) takes 3 days, (b)(6);(b)(7)(C) takes 10</p> <p>20 1/2 months. Do you see how that could cause some of</p> <p>21 the scrutiny you just mentioned?</p> <p>22 A. Sure. I see how -- you know, everything I</p>	<p>1 take that into account if somebody proposed it. But</p> <p>2 that's something that I haven't evaluated because it</p> <p>3 hadn't been presented the me.</p> <p>4 MR. PARKER: Thank you, Mr. Watt. I'll</p> <p>5 turn it over to Ms. Choy.</p> <p>6 MS. CHOY: Thank you.</p> <p>7 BY MS. CHOY:</p> <p>8 Q. You testified last month that you mentor</p> <p>9 Simone Grimes?</p> <p>10 A. I did.</p> <p>11 Q. When did your mentorship of Ms. Grimes</p> <p>12 begin?</p> <p>13 A. I don't know that I can put a date on it,</p> <p>14 I mean, you know, when do you stop mentoring</p> <p>15 somebody? When they start coming to you when they</p> <p>16 asking for your advice on stuff, you try to give them</p> <p>17 advice. And if you go back and read -- I would</p> <p>18 suggest you go back and read what I wrote in the</p> <p>19 fresh facts for women's equality and think about how</p> <p>20 I think about mentoring people. I've been doing it</p> <p>21 22 years in the practice of law and 21 years in</p> <p>22 Congress. And, you know, I think that's part of my</p>

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<p>1 responsibility.</p> <p>2 You know, I've been successful in life. I</p> <p>3 came from meager beginnings and I have got a lot of</p> <p>4 experiences over that time that I think is my</p> <p>5 responsibility, not to just go and hide under a</p> <p>6 bushel basket. There's something in the Bible that</p> <p>7 says, don't hide your light under a basket. So, you</p> <p>8 know, that's my philosophy on mentoring.</p> <p>9 But in that document, what I say is, you</p> <p>10 know, I don't always think of this as a formal</p> <p>11 mentoring relationship. So you start -- when you</p> <p>12 start asking me, when did you your mentoring</p> <p>13 relationship start? You know, your mentoring people</p> <p>14 any time they ask you for advice.</p> <p>15 Q. So there wasn't any conversation about you</p> <p>16 mentoring her?</p> <p>17 A. No.</p> <p>18 Q. So when do you recall her the first time</p> <p>19 approaching you for career advice or career</p> <p>20 opportunities?</p> <p>21 A. As I recall, it would have been -- I</p> <p>22 asked, at some point in 2014, I asked Simone to write</p>	<p>1 pursue other options. You know, this is not about</p> <p>2 only advancement in FHFA, it's about providing an</p> <p>3 honest response to options that people may have</p> <p>4 available to them based on my own experience. And</p> <p>5 that conversation was actually based on my</p> <p>6 experiences with people in Congress who reported to</p> <p>7 me, who I said, look, it's time for you to get out of</p> <p>8 her and go into the private sector. You know, the</p> <p>9 time is not now for you to do this. You've got</p> <p>10 experience.</p> <p>11 So, you know, for me not to share those</p> <p>12 kind of experiences, I think would be derelict on my</p> <p>13 part.</p> <p>14 Q. So do you mentor other individuals at</p> <p>15 FHFA?</p> <p>16 A. Yes, I have.</p> <p>17 Q. All right.</p> <p>18 A. Men and women.</p> <p>19 Q. Men and women. Okay.</p> <p>20 A. And some of their children.</p> <p>21 Q. Okay. So you gave Ms. Grimes your</p> <p>22 personal cell phone number to contact you?</p>
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<p>1 a memo about what the PMO office did. I think it</p> <p>2 would be helpful for you to go back and get that</p> <p>3 memo. It's a very extensive memo that she wrote.</p> <p>4 And, actually, the first meeting I recall having with</p> <p>5 Simone, formal meeting, was about that document. And</p> <p>6 I think pretty much from that point on, you know,</p> <p>7 I've given -- I've given Simone advice about what</p> <p>8 kind of car to buy, you know, after she had an</p> <p>9 automobile accident. I've talked to her about her</p> <p>10 travels to South Africa because I've made four trips</p> <p>11 over there, one before apartheid, one after apartheid</p> <p>12 before the election, one after the election, and one</p> <p>13 to Nelson Mandela's funeral.</p> <p>14 I mean, these are experiences that I share</p> <p>15 with people that I think is important to share with</p> <p>16 people. I mean, you know -- so --</p> <p>17 Q. So is it to say that one of the purpose to</p> <p>18 mentor her was to advice her on career advancement?</p> <p>19 A. One of the -- yes, I would say that that</p> <p>20 would be true, not necessarily advancement, but</p> <p>21 options. I've talked to Simone about her -- about</p> <p>22 when and whether she should leave the agency and</p>	<p>1 A. Yes, I did.</p> <p>2 Q. Do you have all your mentees contact you</p> <p>3 by personal cell phone?</p> <p>4 A. Sure. I mean -- and most everybody in the</p> <p>5 agency that wants to contact me -- you'll notice I</p> <p>6 only have a BlackBerry on my belt. I don't even</p> <p>7 carry my office phone. I don't have a land line at</p> <p>8 home. So there must be -- I bet you 50 to 100 people</p> <p>9 in this agency who have my cell phone number because</p> <p>10 if they really want to get me, if they want to</p> <p>11 contact me, that's really the best way to contact me.</p> <p>12 I don't answer the phone that was -- I use</p> <p>13 it to get email messages. I don't bring it to the</p> <p>14 office because I can check my email messages on the</p> <p>15 computer here. But I do not carry -- I have resisted</p> <p>16 carrying two phones. It's just -- I run back and</p> <p>17 forth to work, it's hard enough to run with one phone</p> <p>18 on your belt.</p> <p>19 You know, I hear where you're going, but</p> <p>20 you know, if somebody is thinking that somehow that</p> <p>21 is out of the ordinary for me, it is not.</p> <p>22 Q. So you would communicate by phone, by text</p>

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<p>1 messages?</p> <p>2 A. Yes.</p> <p>3 Q. Do you maintain those text messages?</p> <p>4 A. No, I normally delete messages fairly</p> <p>5 quickly. And I think you all have made a request for</p> <p>6 those messages, so I've given you -- I mean, you</p> <p>7 know, they may be accessible through a service</p> <p>8 provider, I have no idea, but I don't keep them on my</p> <p>9 phone because I get too many calls and too many text</p> <p>10 messages to maintain them. I'm not a pack rat. You</p> <p>11 know, most of what I have on my phone now is of my</p> <p>12 grandchildren, because when a message comes and I'm</p> <p>13 through with it, I'm going on to the next thing.</p> <p>14 Q. Do you tell your mentees to stop by your</p> <p>15 office whenever?</p> <p>16 A. Sure. I've made it -- the very first</p> <p>17 speech I gave to the whole agency, I said, my door is</p> <p>18 always open. If the door is not closed, it's open.</p> <p>19 People walk into my office all the time.</p> <p>20 Q. So does Ms. Grimes stop by your office</p> <p>21 regularly?</p> <p>22 A. Yes.</p>	<p>1 the office one-on-one?</p> <p>2 A. Let me see if I can count. Five, I think.</p> <p>3 Q. Can you identify where you went in those</p> <p>4 five times?</p> <p>5 A. We talked about the PMO memo at a</p> <p>6 restaurant in southeast. We had a meeting at Rosa</p> <p>7 Mexicano. We walked in Rock Creek Park. We went</p> <p>8 to -- we met at a concert at Blues Alley. And we met</p> <p>9 at my condo on one occasion. And so I guess there</p> <p>10 would be six, because she was at -- she also came to</p> <p>11 (b)(6);(b)(7)(C) retirement reception, which was at my</p> <p>12 condo also.</p> <p>13 Q. What are the timeframes of these meetings?</p> <p>14 A. Starting in June of 2014, and I think the</p> <p>15 last meeting was in November of 2016 -- you're</p> <p>16 talking about off campus.</p> <p>17 Q. But onsite you've continued to see -- have</p> <p>18 meetings with her one-on-one?</p> <p>19 A. Sure.</p> <p>20 Q. In your office, elsewhere within FHFA?</p> <p>21 A. Well, at division conservatorship</p> <p>22 meetings. In my office. If my door is open, people</p>
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<p>1 Q. How frequently does she stop by your</p> <p>2 office?</p> <p>3 A. You know, at various times she has dropped</p> <p>4 by more or less frequently, depending on whether she</p> <p>5 had something to talk about.</p> <p>6 Q. Did you talk about -- as relates to?</p> <p>7 A. Relates to whatever she wants to talk</p> <p>8 about, you know, as long as I got time. You know,</p> <p>9 I'm not -- you know, I'm not a director who is</p> <p>10 distant from the people in this agency. And I think</p> <p>11 you'll find that my employee viewpoint scores have</p> <p>12 gone up dramatic every year that I've been here. I</p> <p>13 think that's important for people to -- for my</p> <p>14 employees in this agency to believe that I'm</p> <p>15 accessible to them.</p> <p>16 Q. So during those meetings they are</p> <p>17 typically one-on-one?</p> <p>18 A. Yes.</p> <p>19 Q. Are they --</p> <p>20 A. Unless somebody brings somebody with them.</p> <p>21 I mean, if they walk in one -- yeah, yeah.</p> <p>22 Q. How many times have you met her outside of</p>	<p>1 walk in. That's the way I also ran my congressional</p> <p>2 office. People thought I was crazy when I told my</p> <p>3 staff not to filter my calls. Not to ask whose</p> <p>4 calling. If somebody called and asked for me when I</p> <p>5 was a member of Congress, I said, put them through.</p> <p>6 I just, you know, it's amazing how we</p> <p>7 diffused issues that way, I mean, because people</p> <p>8 never expected to talk to me. And they'd get on the</p> <p>9 phone, oh, no, I never -- I thought you asked me.</p> <p>10 Oh, I didn't have any idea that I was going to be</p> <p>11 able to talk to a member of Congress.</p> <p>12 I mean, that's just who I am. I'm sorry.</p> <p>13 I'm not sorry, I'm actually very happy with who I am</p> <p>14 in that regard.</p> <p>15 Q. So you said the first thing, you discussed</p> <p>16 the PMO memo someplace in southeast?</p> <p>17 A. Yes.</p> <p>18 Q. Were they all for mentoring Ms. Grimes?</p> <p>19 What was the purpose of those other meetings?</p> <p>20 A. I think probably a combination. Some of</p> <p>21 them -- I think the Blues Alley and the walk in Rock</p> <p>22 Creek Park, probably no discussion of work. You</p>

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<p>1 know, these things merge in my mind what was 2 discussed when, where, and how, but, you know, I 3 just -- I've talked to her about work. I've talked 4 to her about a lot of things that are not related to 5 work. 6 Q. So the walks in the park and the Blues 7 Alley, would that be a social activity that you were 8 engaged in then? 9 A. Social in the sense that, you know, it 10 probably -- 25 to 50 people in the agency that I've 11 played golf with. Is that social? Yes. Males and 12 females, by the way. So, you know, it's just -- I 13 don't know that I always distinguished between social 14 and, you know, because if somebody wants to talk to 15 you, they want to talk to you about what they want to 16 talk to you about. And so I don't try to make that 17 kind of distinction. 18 Q. Just so I'm clear, that means you 19 socialize with other mentees? 20 A. Yes. 21 Q. And you meet them one-on-one as well? 22 A. Yes.</p>	<p>1 THE WITNESS: I'll hand them to you and 2 you can give back the ones that you think I still 3 need. 4 BY MS. CHOY: 5 Q. So the paper is right by your glasses. 6 A. I see that one. I'm looking for something 7 else. Okay. Go ahead. 8 Q. So starts at the bottom -- sorry for the 9 small print. During one of the dinners with your 10 mentee, did you ever say to her: Well, you probably 11 wanted to know what I wanted to talk to you about? I 12 mentioned to you there is an attraction here that I 13 think needs to be explored. In my experience, there 14 are four types of attraction, emotional, spiritual, 15 sexual, or friendship. So the exercise here is to 16 find out which one exists. Did you ever make such a 17 comment? 18 A. Do you want me to read what I said? 19 Q. Yes. 20 A. I absolutely think if you're going to 21 mentor somebody, you got to know what they are 22 thinking.</p>
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<p>1 Q. For dinners, concerts? 2 A. I have, yes. I have, yes. 3 Q. And have other mentees met you at your 4 home alone? 5 A. Yes. 6 Q. Have they met you when other individuals 7 are present? 8 A. Yes. 9 Q. I'm going to show you an exhibit which is 10 a transcript of your colloquy with Congressman Trott 11 from the September 27th hearing. So what I'll do is 12 I'll read -- I marked it Exhibit J -- I'll read the 13 question and you can read the response. 14 (Exhibit No. 9 was marked for 15 identification.) 16 BY MS. CHOY: 17 Q. So, we're starting -- 18 A. Let me get rid of this. I'm accumulating 19 documents over here. Tell me which ones I can get 20 rid of that you're finished with now. 21 MR. PARKER: I'll tell you what. May I 22 come over and get them from you?</p>	<p>1 Q. About attraction? 2 A. Yes. 3 Q. Could you read the -- 4 A. About attraction. And then I say, I don't 5 have any recollection. I've got a lot of mentees, 6 I've never discussed attraction with any -- no, 7 that's Trott that said that. 8 Q. He says, I got a lot of mentees, I've 9 never discussed attraction with any of them? 10 A. My response was: Well, then you haven't 11 mentored them and figured out if they are giving the 12 wrong vibrations, and you're not clear with them what 13 the expectations are, I think you've got problems. 14 Q. Well, I'm pretty confident I'm a pretty 15 good mentor over the years. You ever ask Ms. Grimes 16 about her tattoo? 17 A. And my response is, I don't recall. 18 Q. Thank you. So I'm going to ask you a few 19 questions about it. Could you explain when you say 20 exactly to your mentees, when you say you're trying 21 to be clear of the expectations and to not give the 22 wrong vibrations?</p>

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<p>1 A. So let me just explain the sequence of</p> <p>2 events so that you're clear. I would say</p> <p>3 between -- well, it might be better for me just to</p> <p>4 read it to you because I've been preparing my</p> <p>5 responses to interrogatories on the EEO matter. I</p> <p>6 assume this is on the EEO matter. I don't know --</p> <p>7 MR. PARKER: We're only looking into the</p> <p>8 hotline complaints, sir.</p> <p>9 THE WITNESS: I didn't understand the</p> <p>10 distinction that Laura was making when she testified,</p> <p>11 and I still don't understand it. But let me just --</p> <p>12 let me -- I think it's probably easier so that I</p> <p>13 don't end up giving contradictory statements.</p> <p>14 In the period following (b)(6);(b)(7)(C)</p> <p>15 retirement reception at my condo in July 2015 and my</p> <p>16 February lunch meeting with the complainant, that is</p> <p>17 Simone Grimes, about her South Africa trip, the</p> <p>18 complainant started to make periodic visits to my</p> <p>19 office, during which we would discuss work and</p> <p>20 non-work topics. The increased frequency of those</p> <p>21 visits to my office and the odd times at which</p> <p>22 they -- the visits started to occur raised my</p>	<p>1 transcript. The complainant confirmed that if she</p> <p>2 had given me a contrary impression in any way, it was</p> <p>3 not intentional, and we went on to other topics of</p> <p>4 discussion.</p> <p>5 Q. Okay.</p> <p>6 A. So that gives you the context in</p> <p>7 which -- and my response to Trott -- to</p> <p>8 Representative Trott, it was consistent with that</p> <p>9 because that's what happened.</p> <p>10 Q. So you were trying to be clear with her</p> <p>11 that -- you wanted to get clarification from her that</p> <p>12 she was not attracted to you?</p> <p>13 A. And I got that clarification. And</p> <p>14 actually it was that clarification that made it</p> <p>15 possible for us to have the kind of walk -- the walk</p> <p>16 in Rock Creek Park or meet at a performance venue or</p> <p>17 even have her come to my house to talk about work.</p> <p>18 Because, you know --</p> <p>19 (b)(6);(b)(7)(C)</p> <p>20</p> <p>21</p> <p>22 (b)(6);(b)(7)(C) The last thing I need is for somebody to get</p>
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<p>1 suspicions that complainant could be developing an</p> <p>2 attraction to me that would be inappropriate for</p> <p>3 either an employer/employee relationship or a</p> <p>4 friendship or a mentor/mentee relationship.</p> <p>5 Sometime prior to June 8, 2016, that is</p> <p>6 when the Rosa Mexicano meeting was and this</p> <p>7 conversation took place. I requested an off site</p> <p>8 meeting with the complainant after work hours for the</p> <p>9 specific purpose of addressing and hopefully</p> <p>10 eliminating my suspicions about the complainants</p> <p>11 intentions.</p> <p>12 The complainant picked me up in the</p> <p>13 parking lot and drove me to Rosa Mexicano. During</p> <p>14 the trip there I made the specific comments quoted in</p> <p>15 interrogatory 52, which is the comments that you just</p> <p>16 read, or similar comments. The complainant denied</p> <p>17 that she had any attraction of the kind I had</p> <p>18 suspected.</p> <p>19 I confirmed that my intention was to make</p> <p>20 sure there was no confusion about whether there was</p> <p>21 anything other than, quote, an attraction of</p> <p>22 friendship, closed quote. You'll find that is in the</p>	<p>1 over their skis, you know, and have some kind of</p> <p>2 emotional relationship with me in a situation where I</p> <p>3 am their employer and/or their mentor, or even their</p> <p>4 friend.</p> <p>5 So, you know -- and that's based on</p> <p>6 experience before, too, which I am not going to go</p> <p>7 into. But the last thing you ever want is somebody</p> <p>8 to be thinking one thing about you, and you not be</p> <p>9 there with him, because then it destroys them, and</p> <p>10 that's just not the way to be a good friend or a good</p> <p>11 mentor.</p> <p>12 Q. Okay. So with that response in mind, I</p> <p>13 want to play for you a recording, and then follow up</p> <p>14 with some questions.</p> <p>15 (Exhibit No. 10 was marked for</p> <p>16 identification.)</p> <p>17 (Whereupon, the audio of the</p> <p>18 transcript contained in Exhibit 10</p> <p>19 was played.)</p> <p>20 THE WITNESS: I'm having trouble</p> <p>21 hearing it myself.</p> <p>22 (Recording playing.)</p>

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<p>1 BY MS. CHOY:</p> <p>2 Q. So a couple of questions. Is that your</p> <p>3 voice?</p> <p>4 A. Sure. Uh-huh.</p> <p>5 Q. So where did this occur?</p> <p>6 A. I believe it was -- that was the meeting</p> <p>7 at my condo.</p> <p>8 Q. When did that occur?</p> <p>9 A. According to her it was in November</p> <p>10 of 2016, but I don't have any independent</p> <p>11 recollection of the date.</p> <p>12 Q. And it was just you and Ms. Grimes?</p> <p>13 A. Yes.</p> <p>14 Q. So what did you mean when you said you're</p> <p>15 guilty of having an attraction to her?</p> <p>16 A. I have a friendship attraction to all my</p> <p>17 mentees, you know, I just, you know -- so I don't</p> <p>18 think there's anything in that transcript that you</p> <p>19 just played that is inconsistent with what I just</p> <p>20 said to you, to be quite honest. And so --</p> <p>21 Q. So what did you mean by you can draw the</p> <p>22 line, much to your disappointment?</p>	<p>1 glad my term as a supervisor of anybody is about to</p> <p>2 end because it's just gotten more and more difficult</p> <p>3 to mentor people. And, equally, you know, you</p> <p>4 really -- you kind of have to understand where I came</p> <p>5 from.</p> <p>6 I practiced law in a civil rights law firm</p> <p>7 that did extensive employment discrimination work.</p> <p>8 And in our firm we really never distinguished between</p> <p>9 men and women in the way -- I mean, the whole</p> <p>10 objective here is to get to a point where you don't</p> <p>11 have to get suspicious if you invite a female to do</p> <p>12 something that you would be -- not be suspicious</p> <p>13 about if you invited a male to do it. That's</p> <p>14 equality, from my perspective.</p> <p>15 And so I've always tried to approach male</p> <p>16 and female friends and mentees in much the same way.</p> <p>17 And I carry -- for 22 years we fought for that in the</p> <p>18 courts, landmark decisions to do away with employment</p> <p>19 discrimination. When I went to Congress, I took the</p> <p>20 same concept. It's in my DNA. When I came here,</p> <p>21 it's a bigger agency, and I've tried to follow the</p> <p>22 same concept. I haven't had -- well, I've had as</p>
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<p>1 A. You heard her chuckle because she knew I</p> <p>2 was kidding her about -- the line drawing is draw a</p> <p>3 line between making decisions based on friendship and</p> <p>4 making decisions based on my responsibilities as</p> <p>5 director of this agency. And I've been very clear</p> <p>6 with Simone throughout this whole process that that's</p> <p>7 always the way -- I don't operate any other way.</p> <p>8 Q. And so do you tell other mentees that you</p> <p>9 think that they are gorgeous?</p> <p>10 A. Oh, yeah, I told a number of my mentees</p> <p>11 that I think they're gorgeous, yeah.</p> <p>12 Q. Did you have an attraction to them?</p> <p>13 A. A friendship attraction, yeah. They</p> <p>14 understand that I'm not, you know, that is part of</p> <p>15 building up their perception of themselves. And part</p> <p>16 of what I'm trying to say there is, look, you know,</p> <p>17 you got to be careful here in a relationship of this</p> <p>18 kind not to have a different opinion of yourself.</p> <p>19 But you also have to be careful about what other</p> <p>20 people's perception of it is.</p> <p>21 So that's gotten more and more difficult</p> <p>22 over the years, I suppose, which is one reason I'm</p>	<p>1 many friendships, but not as many mentoring</p> <p>2 relationships as I have had, although I've had a</p> <p>3 number in the period that I've been here, not only</p> <p>4 with employees, but with the children of employees.</p> <p>5 So, you know, that's who I am. And now</p> <p>6 I'm not sure that that's, you know -- I'm the first</p> <p>7 to tell you, this is in a sense a wake up call, it's</p> <p>8 a depressing wake up call when I know that there are</p> <p>9 men in this agency who have stayed at my house in</p> <p>10 Charlotte, who have visited in my home, who have</p> <p>11 visited in my condo, who I have much, much closer</p> <p>12 relationships with than the relationship I have with</p> <p>13 Ms. Grimes. And somehow the public is now saying</p> <p>14 that kind of equality is unacceptable. And, in my</p> <p>15 view, it's time for me to ride off into the sunset</p> <p>16 because the standards have become so confused that</p> <p>17 it's difficult to operate in them.</p> <p>18 But, you know, I don't, you know -- the</p> <p>19 thing that is disappointing to me is, I don't have</p> <p>20 any view that Simone had any opinion that I was</p> <p>21 trying to have a romantic relationship with her.</p> <p>22 Q. So you --</p>

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1 A. I'm going to invite you, if you don't
2 mind, to listen carefully to the May 10 recording.
3 Listen to it all the way through, in which we are
4 still wrestling with this. Simone called me, I guess
5 at the instance of her lawyers, or maybe it was her
6 own instance, to ask me if I would help her build a
7 timeline of our relationship. And I said, Simone,
8 why in the world are you doing that?
9 There was nobody more shocked than I was,
10 May 10, in that recording. When we got to the end of
11 it and Simone said to me that she was -- that her
12 lawyers had suggested that she file these harassment
13 charges, because I don't believe Simone believes that
14 one iota. And, you know, I hope everybody gets all
15 of these tapes that -- she says she recorded all of
16 them, and puts everything in context.
17 But I've done nothing with Simone that I
18 believe is improper. Now, you all may -- some court
19 may find it's improper. Maybe they won't even allow
20 me to talk about the relationship that I've had with
21 men in this agency, and previously. But I think
22 we're setting ourselves up for a very unequal

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1 situation here. And I'm kind of glad I don't have to
2 deal with it beyond January 6 of 2019, because that's
3 just not the way I have lived the last 22, plus 21,
4 almost 5 years of my life now.
5 It is difficult for me so -- you know, I
6 was surprised when Laura testified that she was
7 distinguishing this and that. You know, I assume
8 that I'm going to be forthcoming about everything
9 that has happened in this relationship. And if
10 somebody says that I've done something wrong and
11 somebody has to pay, I will think it would be a sad
12 day because I will know that Simone -- Ms. Grimes,
13 knows in her heart that there was no effort to pursue
14 any kind of romantic relationship with her.
15 BY MR. PARKER:
16 Q. What were you trying -- what I want to
17 understand is, what were you trying to accomplish by
18 inviting a young woman to your apartment with soft
19 music in the background playing, telling her that
20 she's gorgeous and you're attracted to her, but that
21 you can draw the line, much to your disappointment?
22 What were you trying to accomplish by that?

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1 A. I don't think you can appreciate it
2 without hearing the whole conversation. I hope you
3 will --
4 Q. We have the whole conversation?
5 A. No, you don't.
6 Q. Tell me what I'm missing?
7 A. You're missing a bunch of --
8 Q. I'd like you to take this opportunity to
9 tell me exactly what we're missing and put it on the
10 record.
11 A. What we talked about at some length was
12 employment options in the agency. This was at the
13 end of the year. I thought -- and you're going to
14 find this if you get all these recordings. I thought
15 that a couple of possibilities existed that could
16 play themselves out, and I've discussed those options
17 with her.
18 Q. What were these, sir, please?
19 A. Well, I think you're better off to get the
20 tapes and listen to them.
21 Q. I'm trying, but I really would like you to
22 put everything on the record because we promised that

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1 we would give you an opportunity to put everything on
2 the record, all the context. Please take your time
3 and give us everything that you think is important.
4 A. Well, I'm not going to be able to remember
5 every conversation we had, if that's what you're
6 suggesting.
7 Q. You can supplement -- I'll come back.
8 A. Well, you come back after you get the
9 tapes and we'll listen to them, and I'll tell you
10 exactly what was being discussed. But one thing --
11 Q. Just continue --
12 A. -- I can tell in general, one thing that
13 was being discussed was (b)(6);(b)(7)(C)
14 (b)(5);(b)(6);(b)(7)(C)
15
16
17 possibility that I might consider Ms. Grimes as a
18 potential (b)(5);(b)(6);(b)(7)(C) chief of
19 staff, because a lot of the skill sets that you
20 develop being over the Project Management Office are
21 similar, and in fact, very similar to what (b)(6);
22 ended up doing.

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<p>1 I told her, as I recall, that I was 2 pressing (b)(6);(b)(7)(C) to either take the (b)(6);(b)(7)(C) 3 either by competing for it or by me making a direct 4 appointment, because that is a position that I 5 could -- that I could make a direct appointment for. 6 We had -- that was part of that discussion. And if 7 that happened, then that would create an opening in 8 an executive level position. And the one thing I 9 have done to try to get people who are at level 15 10 into executive level positions, is when there is an 11 existing open executive level position, make sure 12 that we allow people at the 15 level to bid for those 13 positions. Don't restrict it to people who are 14 already -- 15 But I couldn't promise that she would get 16 that job, because that would be a competitive 17 process. And I've never promised -- I've never 18 promised Ms. Grimes any position, because -- not even 19 the chief of staff position, which I have -- I would 20 have complete control over. I believe I said to her, 21 you know, I might consider you for that position if 22 (b)(6);(b)(7)(C) goes another route. But, you know, that was</p>	<p>1 Q. It doesn't help. 2 A. Well, okay. That's your perception. 3 MR. FAY: That's Mr. Parker's perception. 4 THE WITNESS: That's Mr. Parker's 5 perception. And so you all can make whatever you 6 want of it. You get the tapes and you all can write 7 your report. I'm telling you what happened. And I'm 8 trying to be as forthcoming as I can be. 9 BY MR. PARKER: 10 Q. Any other part of that you want to tell us 11 about because I'd like to ask you a few questions if 12 you've given us all the context that you feel is 13 relevant? 14 A. That's the context that I recall. 15 Q. Is there anything else? 16 A. I don't know, there may be. I'd have to 17 hear the tape to -- 18 Q. Which tape would you like to hear, sir? 19 A. The one that you haven't gotten, 20 apparently because she's refused to produce all the 21 tapes. 22 Q. What would it tell us, sir? What would it</p>
Page 119	Page 121
<p>1 not by any means any kind of offer of employment. 2 I've never offered Ms. Grimes any position in this 3 agency. 4 Q. So you have this conversation where you 5 talk to her about the chief of staff position and 6 other positions alone with her in your apartment with 7 soft music in the background, and then tell her that 8 she's gorgeous, you're attracted to her, and you can 9 draw the line. I don't get it. 10 A. Look, look, look, wait, wait, wait, wait. 11 Wait a minute. Wait a minute. Wait a minute. 12 Q. I don't get it. Do you see how that 13 looks? 14 A. Well, you don't get it because you're 15 trying to make something of something that doesn't 16 exist. 17 Q. No, sir. 18 A. I'm at my condo, she walks in, music is 19 playing. What am going to do? Cut off the music 20 and have a conversation with her. I mean, this 21 whole -- hey, you couldn't possibly be above board if 22 you got soft music playing in the background.</p>	<p>1 tell us? 2 A. I just told you what it would tell you. 3 Q. Okay. So is there anything else you'd 4 like to add? Take your time? 5 BY MS. CHOY: 6 Q. The recording that we listened to earlier, 7 it suggested that you had a previous conversation 8 with Ms. Grimes regarding -- 9 A. A number of them. 10 Q. A number of them. 11 A. Yeah. 12 Q. So how often have you had that 13 conversation with her? 14 A. The Rosa Mexicano was the primary one, 15 which kind of -- actually, it was the only one that I 16 initiated. I initiated that Rosa Mexicano meeting 17 because of my concerns. I just testified about that. 18 Q. And you said that she was showing up at 19 your office at odd hours. What was that -- what were 20 the hours? 21 A. Well, you know, if somebody -- if somebody 22 comes by the desk (b)(6);(b)(7)(C)</p>

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1 (b)(6);(b)(7)(C) is not going to let them in, if she's
 2 there, without coming and announcing them. Now, they
 3 still get in, but they -- but the number of times
 4 that Ms. Grimes was showing up unannounced with (b)(6)
 5 not being there is really what -- the frequency and
 6 the timing of them is what I got -- I started to get
 7 suspicious about.
 8 Q. What time does (b)(6) leave the office?
 9 A. I don't know. Back at that time there
 10 were different flex schedules. I don't know.
 11 Q. In that first conversation where you said
 12 you can draw the line. What was Ms. Grimes' response
 13 to that?
 14 A. Which conversation are we talking about?
 15 Q. When you said, I can draw the line?
 16 A. Are you talking about the Rosa Mexicano?
 17 Q. Well, you said that was the first
 18 conversation where you had the --
 19 A. Which conversation are you talking about?
 20 Q. So you said the first time you talked
 21 about attraction was at Rosa Mexicano, right?
 22 Setting up the expectations and discussing -- did you

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1 tell her then also that you knew how -- you knew
 2 where to draw the line?
 3 A. Yes. Yeah.
 4 Q. What was her response?
 5 A. She said, great. I mean, you know --
 6 Q. Okay. Did she ever say that the
 7 statements you've made to her, to Ms. Grimes, ever
 8 made her feel uncomfortable?
 9 A. Yeah, she said that. But she -- you
 10 notice at the end of that statement she was very
 11 clear that if she had done something to give me that
 12 impression, she did not intend to. And that was
 13 really, from my perspective, the key part of what she
 14 was saying, because she was saying, clearly, you
 15 know, you've misinterpreted -- my suspicions were not
 16 well-founded. And, actually, I was relieved, to be
 17 quite honest, because, you know, I have no interest
 18 in shadowing something.
 19 Q. So I'm clear, that's what made her feel
 20 uncomfortable?
 21 A. I have no idea, you'd have to ask her. I
 22 think the tapes will speak for themselves, which is

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1 why I was going to sit here and look at your
 2 colleague there until you all get the tapes before I
 3 made anymore comments about them.
 4 Q. Again, when you said, much to your
 5 disappointment after you made the comment about you
 6 know how to draw the line. What did you mean by much
 7 to your disappointment?
 8 A. That was a joke, and she laughed, which --
 9 and I laughed because she knew I was joking.
 10 Q. You were joking about?
 11 A. About if she thought I had any kind
 12 attraction to her.
 13 Q. Physical or sexual attraction?
 14 A. Right.
 15 Q. You mentioned a lot earlier that in the
 16 same conversation, actually, on the -- if we agree
 17 that's on November 2016, that you had been talking to
 18 (b)(6);(b)(7)(C)
 19 A. I'm sorry.
 20 Q. You were talking to (b)(6);(b)(7)(C) about
 21 (b)(6);(b)(7)(C)
 22 A. Yes, for several years now I tried to get

Page 125

1 (b)(6);(b)(7)(C)
 2
 3
 4
 5 Q. But you understand (b)(6);(b)(7)(C)
 6 position?
 7 A. (b)(6);(b)(7)(C)
 8 (b)(6);(b)(7)(C)
 9
 10 and I've been appreciative of that.
 11 Q. Did you ever consider posting it for a
 12 (b)(6);(b)(7)(C)
 13 A. Well, yes, but I thought after (b)(6);(b)(7)(C) had
 14 been in the position for awhile, if he wanted the
 15 position, he would be the logical person to get it,
 16 whether I went through a posting or whether I didn't
 17 go through a posting. Whether I just -- because I
 18 had the authority to make that appointment. I can
 19 shift executives -- existing executives around. I
 20 have that authority. I have not done it, but I do
 21 have the authority to do it.
 22 And so -- but (b)(6);(b)(7)(C) has indicated on

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 4

Part 3 of 3

Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy and their input during the deliberative process.

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1 multiple occasions that (b)(6);(b)(7)(C)
 2 (b)(6);(b)(7)(C)
 3 Q. So I think you have the transcript of the
 4 recording, but we can also put it as an exhibit.
 5 That first page of the conversation. So
 6 Ms. Grimes, says: Is there, I mean, either position
 7 seems, from my perspective, I think to be qualified
 8 for. What other position was she -- what were you
 9 discussing with her?
 10 A. I think she probably thought she would be
 11 qualified to bid for (b)(6);(b)(7)(C) position. I couldn't
 12 have appointed her to that position, she would have
 13 had to bid for it. And that was one of the things
 14 that I was saying to her, I'm trying to get (b)(6);(b)(7)(C) to
 15 (b)(6);(b)(7)(C)
 16 (b)(6);(b)(7)(C)
 17 (b)(6);(b)(7)(C)
 18 (b)(6);(b)(7)(C) So she thought she would be
 19 qualified for that position. And the other position,
 20 as I recall, was the chief of staff position. So
 21 that's -- if you get the rest of the transcript or
 22 the recording, I think you'll see what the positions

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1 were.
 2 Q. So you thought she was qualified to be in
 3 the chief of staff or chief operating officer?
 4 A. No, she thought she was qualified. This
 5 is her saying, I mean, either position seems, from my
 6 perspective, I think I would be qualified for either
 7 position. So it was clear that she thought she was
 8 qualified. And I thought she would be qualified to
 9 be considered for either position. Now, whether she
 10 would get either position would be a function of who
 11 else was being considered. So, yeah.
 12 I mean, as I previously testified, a lot
 13 of the PMO skills are consistent with what (b)(6);(b)(7)(C)
 14 does, as (b)(6);(b)(7)(C)
 15 something like that. (b)(6);(b)(7)(C) is the way we
 16 pronounce it in North Carolina. But a lot of the
 17 things that (b)(6);(b)(7)(C) chief of staff, and a lot
 18 of that is -- some of it, I shouldn't say a lot of
 19 it, but some of it is running interference and
 20 managing our relationship with the IG's office.
 21 And in the meetings that we have to meet
 22 directly with the IG, Simone was regularly, she

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1 wasn't in all of them, but (b)(6);(b)(7)(C) is the primary
 2 person, but she was involved in a lot of those
 3 discussions preparing us for the meetings that we had
 4 directly at the top level with the Inspector General.
 5 Q. This might be part of the recording that
 6 you were talking about, I can play the recording or
 7 we can look at the transcript. This is part of that
 8 same --
 9 A. Can I give a copy to the court reporter?
 10 No, this is consistent with what I have been saying.
 11 And so our original plan was to -- at least one of
 12 the options that we were looking at was to try to
 13 bring you into (b)(6);(b)(7)(C) office, and that would have
 14 put you in line (b)(6);(b)(7)(C) to become chief
 15 of staff. So, yeah, that was one of the options we
 16 looked at.

We decided -- (b)(5)

(b)(5)

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1 Q. That was discussed with (b)(6);(b)(7)(C)
 2 (b)(6);(b)(7)(C) or --
 3 A. Probably with Ms. Grimes, or in my mind I
 4 don't know who I discussed it with. But that was at
 5 least one of the options. And up at the top of page
 6 2 -- so, anyway, we have been looking at a few
 7 different scenarios. I wanted to move (b)(6);(b)(7)(C)
 8 (b)(6);(b)(7)(C)
 9 (b)(6);(b)(7)(C)
 10 really came in wanting to be (b)(6);(b)(7)(C) but
 11 she's found a different niche, and she wants to do
 12 more policy stuff rather than (b)(6);(b)(7)(C) stuff.
 13 So, that is true. It's not a secret. It
 14 is not a secret to (b)(6);(b)(7)(C) He
 15 knew when we hired (b)(6);(b)(7)(C) it was with the ultimate
 16 purpose of her becoming (b)(6);(b)(7)(C) But she
 17 decided she didn't want the position, so I didn't --
 18 you know, I wasn't going to push somebody. It wasn't
 19 that (b)(6);(b)(7)(C) was doing -- you know, I just thought he
 20 was getting older and at some point he would probably
 21 want to retire, and I've had that discussion with
 22 (b)(6);(b)(7)(C) So he won't be surprised by that.

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1 Q. So given the conversation with Ms. Grimes
2 about the (b)(6);(b)(7)(C)
3 (b)(6);(b)(7)(C) would you say that you
4 thought she had potential to be an executive?
5 A. I think she would certainly have had the
6 qualifications to be considered for those positions.
7 Every one of them other than the chief of staff would
8 have had to be a competitive position. And I
9 probably would have made the chief of staff a
10 competitive position. The only reason I didn't make
11 it competitive when I hired (b)(6);(b)(7)(C) was because she
12 was basically a political appointee. She was a
13 political appointee. So I didn't have to go
14 through -- but if I were filling that position with
15 internal people or somebody from inside, I would bid
16 it, yes. I would definitely have required people to
17 compete for it. And I would have thought that Ms.
18 Grimes would have been one of the people who, if she
19 applied, would be considered because of her PMO
20 background and the similarities of some of the
21 duties.
22 Q. Were there any other positions that you

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1 discussed with Ms. Grimes?
2 A. I don't recall having any other
3 discussions about any other positions.
4 Q. And you conclude that Ms. Grimes had the
5 qualifications to compete for these positions based
6 on your interactions with her?
7 A. Based on my observations in the division
8 of conservatorship meetings, based on the job that
9 everybody was saying she was doing with the Project
10 Management Office, based on my own observations of
11 her, yes. I mean, she -- that wouldn't have
12 guaranteed her the job, don't get me wrong, but she
13 certainly would have been one of the people who I
14 would have thought would have been a viable candidate
15 for the positions.
16 Now, you know, the problem with (b)(6);(b)(7)(C)
17 position, to be quite honest, I mean, I don't think I
18 had this discussion with her. If she was competing
19 for (b)(6);(b)(7)(C) position, there would probably be
20 multiple existing executives who would want that
21 position. She would have been competing with (b)(6);(b)(7)(C)
22 (b)(6);(b)(7)(C) you know. And so no way a level 15

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1 probably was going to get that job, but that wouldn't
2 mean that she wouldn't be able viable applicant. And
3 that wouldn't have been something that I would have
4 controlled, other than ultimately, because for a
5 position like that we would have had at least three
6 people go through the interview process, and they
7 would filter -- they would narrow the list down to
8 hopefully one, and they would make a recommendation.
9 Or they would at least narrow it down to not more
10 than three, and then I would interview them. That's
11 what we did with (b)(6);(b)(7)(C) for example. We
12 had a wide range of people applying for that
13 position, both internal and external. And the
14 interview team narrowed it down to, I think, three
15 people, and then I interviewed those three people and
16 selected the person.
17 But, you know, there are different
18 processes that we followed on these, but it could not
19 have gotten to me without her going through a
20 different process. The only one that could have
21 gotten to me without going through other processes,
22 theoretically, would have been the chief of staff

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1 position. And I can tell you, if I was filling that
2 position internally as opposed to bringing somebody
3 in from outside as a political appointee, which is
4 what we did with (b)(6);(b)(7)(C) I can assure you, I would
5 not have disrupted my organization and had a bunch of
6 people unhappy without going through the process.
7 Q. So did you have in mind your discussions
8 with Ms. Grimes about her interest in becoming an
9 executive when you approved (b)(6);(b)(7)(C) request
10 for a new executive position in OCOO?
11 A. I assumed she was going to apply for the
12 position when he created it, but -- and she did
13 apply. But I didn't know who the -- who the
14 recommended candidate was, interestingly enough,
15 until the Inspector General told me that she was the
16 unanimous choice. And I didn't know up until that
17 point that she had become the unanimous choice.
18 Q. Did you have any discussions with Ms.
19 Grimes when the job was announced about that
20 position?
21 A. No, I think I tried to stay away from that
22 because I didn't -- I really didn't want any

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<p>1 appearance issues. I kind of sensed that</p> <p>2 November 2016 meeting. I mean, you know, I've seen</p> <p>3 Simone around, you know, comment on her shoes. She's</p> <p>4 a big shoe person. We always joke about her shoes.</p> <p>5 You know. But aside from that, I haven't seen a lot</p> <p>6 of Simone since November of 2016. I'm not saying I</p> <p>7 haven't seen her at all, and there wasn't any reason</p> <p>8 for me to go seeking her out.</p> <p>9 I did call her after the investigation</p> <p>10 was -- the investigation of the hotline complaints</p> <p>11 found no impropriety, I called her, and said, hey, we</p> <p>12 have a letter now, and I think we're going to be able</p> <p>13 to start the process. But even then -- and at that</p> <p>14 point I think in that conversation, I think that be</p> <p>15 the May 8 conversation, I said, I have been advised</p> <p>16 that you were the selected candidate. But I didn't</p> <p>17 have any real personal knowledge of that even at that</p> <p>18 point.</p> <p>19 And then I called her back two days later,</p> <p>20 and said to her, I may have misled you on the time</p> <p>21 that this -- that this thing will move because now</p> <p>22 that I've got the letter, it says we got to wait</p>	<p>1 A. Well, it's only speculation, and I can</p> <p>2 only speculate based on what I've heard on the tape.</p> <p>3 But when somebody gets to the point, and says, my</p> <p>4 lawyers think this is a good strategy, which is what</p> <p>5 she says on the tape -- and I'm going along with my</p> <p>6 lawyers. I mean, the only conclusion I could reach</p> <p>7 is that her lawyers thought that by adding this</p> <p>8 sexual harassment allegation is going to somehow</p> <p>9 enhance the value of her claim. But I don't know</p> <p>10 that. I mean, I'm just telling you what my</p> <p>11 conclusion was based on your hearing what she said to</p> <p>12 me in that phone conversation.</p> <p>13 Q. So to go back to earlier about the</p> <p>14 attraction -- your conversation about attraction and</p> <p>15 that it was about friendship, not sexual or physical</p> <p>16 attraction. So at any point in time did you have a</p> <p>17 physical relationship with Ms. Grimes?</p> <p>18 A. No, she's testified about that. She's on</p> <p>19 record -- look at page -- I quoted that to the</p> <p>20 committee. I think it's on page 45 of the -- where</p> <p>21 she specifically says, no groping, no hand-holding,</p> <p>22 no touching, no kissing, no sexual relations of any</p>
Page 135	Page 137
<p>1 13 days, and I just didn't want you to be sitting by</p> <p>2 the phone waiting on somebody to call you about it.</p> <p>3 And it was in that conversation that she indicated to</p> <p>4 me that either she had or was in the process of</p> <p>5 filing a sexual harassment claim. And at that point</p> <p>6 I cut off the discussion completely. And that is a</p> <p>7 very interesting conversation.</p> <p>8 Q. Right. You just said that you told her she</p> <p>9 got the job and that (b)(6);(b)(7)(C) would be reaching</p> <p>10 out to her, if I recall correctly, from the May 8</p> <p>11 call?</p> <p>12 A. Yeah. I told her the process was going to</p> <p>13 start again, it still had to come to me to sign off</p> <p>14 on it. And to tell you how much I went out of way to</p> <p>15 avoid any appearance issues. And once she told me</p> <p>16 she had filed these charges, when the file came to</p> <p>17 me, I immediately delegated it -- the decision to</p> <p>18 (b)(6);(b)(7)(C) and didn't even tell her why I was delegating</p> <p>19 it, because I didn't want to negatively influence her</p> <p>20 selection for the position, even though she had told</p> <p>21 me she was filing these charges.</p> <p>22 Q. Why do you think she filed the complaint?</p>	<p>1 kind because there has been none. There has been</p> <p>2 none.</p> <p>3 And, you know, even in this conversation</p> <p>4 on November, whenever it was, November of 2016, I</p> <p>5 went out of my way to sit on one side of the room and</p> <p>6 she sat on the other side of the room. I mean, you</p> <p>7 know, because there was just not going to be any kind</p> <p>8 of relationship there, and I knew that, and I was</p> <p>9 comfortable with that. I think even if you listen to</p> <p>10 that tape, you'll find that I said, I have no</p> <p>11 reservations about this, because, you know, I knew</p> <p>12 nothing was going on between me and Ms. Grimes.</p> <p>13 Q. So no hugs?</p> <p>14 A. The only -- the only time I ever hugged</p> <p>15 Simone, that I can recall, was when she came to (b)(6);(b)(7)(C)</p> <p>16 (b)(6);(b)(7)(C) going away reception. And I reached out my</p> <p>17 hand to shake her hand, and she pulled me in, and</p> <p>18 said, we're not on the job now, or something to that</p> <p>19 effect. This gives me an opportunity to clarify</p> <p>20 something for you because --</p> <p>21 Q. Please.</p> <p>22 A. -- which will probably confuse you, it</p>

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1 confused me at first, because she was saying that
2 this conversation that we had about the PMO office
3 was in 2016, it was actually in 2015.
4 Q. You mean the conversation about the PMO --
5 the function of PMO and --
6 A. The one over in southeast.
7 Q. Right. Your very first conversation. You
8 said 2015?
9 A. It was 2015, it was not 2016. And she was
10 also very mistaken about -- I'm just free-flowing
11 now. I'm trying to help you-all's investigation.
12 She's also mistaken about the date of (b)(6);(b)(7)(C)
13 leaving the agency. That was in 2014. She says it
14 was in 2015. It was actually because -- and the
15 reason it confused me is because I knew that on the
16 date she said whatever conversation took place, which
17 I think was the day that I said to her, do the memo,
18 or maybe I had already told her to do the memo, and I
19 said, let's have a discussion about the memo. But
20 she's a whole year off on that equation, because the
21 day she says that that conversation took place, the
22 conversation -- the conversation itself what she says

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1 is inaccurate, but the date is also inaccurate,
2 because I was on a train to New York on the date that
3 she says that conversation took place.
4 Q. This is the conversation where she says
5 you approached her and said there is an attraction --
6 an attraction that you need to explore?
7 A. Yeah, she says that that's what the
8 conversation was about, but I don't believe that was
9 what the conversation was about at all.
10 Q. So what was it?
11 A. I approached her, and said, either do the
12 PMO memo or we need to have a discussion about the
13 PMO memo that you've already done. And it must have
14 been -- let's arrange to have a discussion about the
15 PMO memo so that I could understand more about what
16 the PMO office does. But there was not any kind of
17 discussion about any kind of attraction in that
18 meeting. That was 2015.
19 Q. I think she said September 2015 was (b)(6);(b)(7)(C)
20 (b)(6);(b)(7)(C)
21 A. It was September 2014. Go back and -- I
22 can help you because I tried to put the time line

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1 together myself. I'm trying to find the actual
2 documents. Yeah, I got them.
3 Q. Uh-huh. Yes. Announcement for (b)(6);(b)(7)(C)
4 (b)(6);(b)(7)(C)
5 MR. PARKER: Can we have a copy of that
6 because if we talk about it, I think it would be
7 helpful to anybody reading the transcript to have it
8 as an exhibit.
9 THE WITNESS: I assume you all would
10 recover it from your document search, but I'm happy
11 to give you a copy of it.
12 MR. PARKER: That would be wonderful.
13 THE WITNESS: And with that -- and put it
14 in the record -- I can give you a copy of that, too,
15 which says that on that date in 2015, I wasn't even
16 in the office. So I know that conversation didn't
17 take place. So, yeah, I would be happy to make a
18 copy of it for you.
19 MR. PARKER: Do you want to give it to me
20 and I'll put a sticker on it. I'll put a sticker on
21 it and put it in the record, if that's all right.
22 THE WITNESS: Yeah. Well, I don't want a

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1 sticker on -- let me make a copy of it. I'll run up
2 there quickly and make a copy of it.
3 MR. PARKER: I appreciate that, sir.
4 Thank you very much. So we are going to mark, ma'am,
5 next both the (b)(6);(b)(7)(C) has earned is passport
6 to retirement poster, and Mr. Watt's calendar, as the
7 next two exhibits in the series, please. Thank you,
8 Mr. Watt.
9 (Exhibit No. 11 was marked for
10 identification.)
11 (Exhibit No. 12 was marked for
12 identification.)
13 THE WITNESS: Are we finished?
14 MR. PARKER: I'm thanking you for the
15 exhibit.
16 THE WITNESS: I thought you were saying --
17 BY MS. CHOY:
18 Q. You said earlier --
19 A. I thought that was a pretty abrupt ending.
20 Go ahead.
21 MR. PARKER: Thank you for the exhibits.
22 BY MS. CHOY:

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<p>1 Q. You said you had other mentees at FHFA?</p> <p>2 A. Yes.</p> <p>3 Q. Others that you had invited to your home?</p> <p>4 A. Yes.</p> <p>5 Q. Could you identify some of these mentees?</p> <p>6 A. The one that I have probably the closest</p> <p>7 relationship with is (b)(6);(b)(7)(C) We regularly</p> <p>8 play golf together. I don't know if he's been to my</p> <p>9 condo here, but he's spent the night at my house in</p> <p>10 Charlotte, and has been to my home in Charlotte on</p> <p>11 more than one occasion. So that's probably the</p> <p>12 closest one.</p> <p>13 I mentored six kids, one of whom is the</p> <p>14 son of (b)(6);(b)(7)(C) and five of his high school</p> <p>15 graduating classmates, the first year I got here.</p> <p>16 And (b)(6);(b)(7)(C) asked me if I would just sit and talk to</p> <p>17 them. I said, sure. Bring them up here and we'll</p> <p>18 have lunch. So we had lunch. And lo and behold,</p> <p>19 four years later, five of the six came back, getting</p> <p>20 ready to graduate from college, and we had another</p> <p>21 session.</p> <p>22 So, you know, (b)(6);(b)(7)(C) and I have been, you</p>	<p>1 that right?</p> <p>2 THE WITNESS: No. No. Well, in a sense</p> <p>3 that we have played golf together and she's given me</p> <p>4 advice about tech stuff. And I've talked to her</p> <p>5 about -- she actually left the agency there, she</p> <p>6 retired, and I talked to her at that point about her</p> <p>7 future plans, and where she was moving to. So I</p> <p>8 wouldn't necessarily characterize it as an ongoing</p> <p>9 mentoring relationship, no.</p> <p>10 BY MS. CHOY:</p> <p>11 Q. So no one else. No other female mentees</p> <p>12 have visited your home in D.C.?</p> <p>13 A. No.</p> <p>14 Q. Should I have her mark it?</p> <p>15 MR. PARKER: Can you mark it. I'll give</p> <p>16 you the original, sir you should give the court</p> <p>17 reporter back the exhibits. You're done with, sir.</p> <p>18 THE WITNESS: A and B. These are not</p> <p>19 mine, that's what I'm getting confused about. What</p> <p>20 is mine and what is yours? I guess --</p> <p>21 MR. PARKER: You can take them back.</p> <p>22 Those were just for your convenience while we asked</p>
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<p>1 know, I think I consider her a mentee.</p> <p>2 Q. Has she been to your home?</p> <p>3 A. No, but I invited her to come to my home.</p> <p>4 She was actually there last weekend for -- she was in</p> <p>5 Charlotte for a Facilitates Management Convention</p> <p>6 that was taking place, and I invited her to come.</p> <p>7 She wasn't able to come, but I invited her.</p> <p>8 Q. Any other female mentees that have been to</p> <p>9 your home or met you at your home in D.C.?</p> <p>10 A. No. Well, the person who was over the --</p> <p>11 what is (b)(6);(b)(7)(C) last name who was over the tech group</p> <p>12 has been to my home. And we played golf together,</p> <p>13 (b)(6);(b)(7)(C) I played golf -- I'll have to -- I can't</p> <p>14 remember her last name.</p> <p>15 Q. (b)(6);(b)(7)(C) is her first name?</p> <p>16 A. (b)(6);(b)(7)(C) is her first name.</p> <p>17 Q. But she was at my condo to set up my home</p> <p>18 computing capabilities with the office, not in kind</p> <p>19 of a -- at that time, I mean, it was just work at</p> <p>20 that time, but she's been there before.</p> <p>21 MR. PARKER: Did you mentor her sir? I</p> <p>22 just want to make that clear, you are her mentor, is</p>	<p>1 questions.</p> <p>2 THE WITNESS: I'm trying to make sure we</p> <p>3 don't give you back something that was mine.</p> <p>4 MR. PARKER: Thank you, Mr. Watt.</p> <p>5 (Exhibit No. 13 was marked for</p> <p>6 identification.)</p> <p>7 (Exhibit No. 14 was marked for</p> <p>8 identification.)</p> <p>9 BY MS. CHOY:</p> <p>10 Q. So this exhibit, the first page is a copy</p> <p>11 of the contact information. Is that your personal</p> <p>12 cell phone number?</p> <p>13 A. Yes.</p> <p>14 Q. And the next two are copies of text</p> <p>15 messages, exchanges between you and Ms. Grimes. The</p> <p>16 first one is dated January 4, 2017?</p> <p>17 A. Uh-huh.</p> <p>18 Q. It shows that you had a communication</p> <p>19 about -- Ms. Grimes reached out to you to schedule a</p> <p>20 meeting to chat at 2:30 p.m., and you said, okay.</p> <p>21 A. Wait a minute. Let me make sure I'm at</p> <p>22 the same place you are. Mine says --</p>

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<p>1 Q. Ms. Grimes --</p> <p>2 A. 8:37 a.m. Is that not the one --</p> <p>3 Q. Yes. So that's when the text exchange</p> <p>4 begins. So it was January 4, 2017, 8:37 a.m.</p> <p>5 A. Okay.</p> <p>6 Q. Right. And the first text comes from Ms.</p> <p>7 Grimes where she says, Happy New Year. Do you have</p> <p>8 time to chat today? And your response: Sure. Any</p> <p>9 time after noon probably would be better. She says:</p> <p>10 Does 2:30 work. And you say: Okay. Great. Thanks.</p> <p>11 Do you recall having that meeting with Ms.</p> <p>12 Grimes, this is the January 2017?</p> <p>13 A. I don't have any recollection of it, but</p> <p>14 obviously we had this exchange. I hope you get the</p> <p>15 recording of it.</p> <p>16 Q. So when she reaches out to have meetings</p> <p>17 with you, do you put it in your personal calendar?</p> <p>18 A. No. I don't have a personal calendar. I</p> <p>19 don't have any calendar other than the official</p> <p>20 calendar. I don't keep a personal calendar.</p> <p>21 Q. The next one is dated May 25, 2017, it</p> <p>22 starts at 9 a.m.</p>	<p>1 Q. And do you recall what those conversations</p> <p>2 would have covered?</p> <p>3 A. Whatever she wanted to talk about. I</p> <p>4 wasn't initiating the meetings, so -- I mean, I've</p> <p>5 told you about the meetings I initiated with her. So</p> <p>6 whatever she wanted to talk about, I mean, we would</p> <p>7 talk about.</p> <p>8 Q. Any recollection of what some of those</p> <p>9 topics might have been?</p> <p>10 A. I won't read what I wrote. It could have</p> <p>11 been music. It could have been walking. It could</p> <p>12 have been automobiles. It could have been travel.</p> <p>13 You know -- and the timeframes that we had</p> <p>14 conversations, I mean, I just -- I can't put</p> <p>15 timeframes on it, but those are the kinds of things</p> <p>16 that I remember having conversations with her about.</p> <p>17 I can't tell you the time sequence in which they</p> <p>18 occurred.</p> <p>19 Q. So these were in 2017, did you continue to</p> <p>20 have one-on-one meetings with her in 2018 of this</p> <p>21 year?</p> <p>22 A. Yes. Not frequently, but yes.</p>
Page 147	Page 149
<p>1 A. Uh-huh.</p> <p>2 Q. So you can see it in the next page as</p> <p>3 well. And Ms. Grimes says: We should have a</p> <p>4 conversation. Your response was: Stop by after the</p> <p>5 CC meeting this morning?</p> <p>6 A. Uh-huh.</p> <p>7 Q. She tells you she's not in today, and that</p> <p>8 she will check your schedule for the -- following the</p> <p>9 holiday weekend. So do you recall having a meeting</p> <p>10 with her after that Memorial Day weekend, this is in</p> <p>11 2017?</p> <p>12 A. I don't recall. I don't recall. No.</p> <p>13 Q. So you stated that after November 2016 you</p> <p>14 didn't see Ms. Grimes as frequently?</p> <p>15 A. That is correct.</p> <p>16 Q. But you did see her in the office?</p> <p>17 A. Yes. Uh-huh.</p> <p>18 Q. In addition to the conservatorship</p> <p>19 committee meetings and the OIG liaison meetings, you</p> <p>20 did have meetings with her onsite, one-on-one in</p> <p>21 2017?</p> <p>22 A. Yeah, probably. Yes.</p>	<p>1 Q. So not frequently as in maybe once a month</p> <p>2 or once every other month?</p> <p>3 A. I don't know that I can put a frequency on</p> <p>4 it, but if she has all of the recordings, all of</p> <p>5 them, I encourage you to get them because I don't</p> <p>6 think you're going to find a lot of them, you know.</p> <p>7 The one I can tell you about, I mean, I can tell you</p> <p>8 the ones that I know about specifically, if you want</p> <p>9 to kind of cut to the chase.</p> <p>10 Q. Please.</p> <p>11 A. And you probably have -- you probably have</p> <p>12 text messages or something about those, so why don't</p> <p>13 I just wait for you to ask your questions. I'll wait</p> <p>14 on you.</p> <p>15 MR. PARKER: Can you give that to the</p> <p>16 court reporter, Mr. Watt. Thank you, sir.</p> <p>17 BY MS. CHOY:</p> <p>18 Q. Do you recall something?</p> <p>19 A. No, I was trying to put this -- I tried to</p> <p>20 go back and kind of construct my own timeline. And I</p> <p>21 was trying to put this into that timeline. But I</p> <p>22 don't see anything that would allow me to do that.</p>

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<p>1 May 25, 2017. Unlike Ms. Grimes, I was not recording</p> <p>2 or keeping a calendar on these things. So, I mean,</p> <p>3 I've had to go back and try to piece together as best</p> <p>4 I can what I remember the sequence of events being.</p> <p>5 Q. So when we start turning away from the</p> <p>6 2017 text messages, you were starting to talk about</p> <p>7 2018?</p> <p>8 A. Yeah, but I decided to wait on you all to</p> <p>9 get to 2018. I assume you'll get there, so I'm happy</p> <p>10 to answer any questions about it.</p> <p>11 Q. Actually, would you give us permission to</p> <p>12 retrieve those text messages from your phone?</p> <p>13 A. Huh?</p> <p>14 Q. Would you give -- you said you delete your</p> <p>15 text messages as soon as you're finished responding</p> <p>16 or reading them, we don't have the 2018 text</p> <p>17 messages.</p> <p>18 A. I thought you did. I thought they were --</p> <p>19 MR. PARKER: We're talking text messages</p> <p>20 on your phone.</p> <p>21 THE WITNESS: Oh, text messages.</p> <p>22 MR. PARKER: We don't have any for 2018.</p>	<p>1 messages.</p> <p>2 MR. PARKER: What would help us?</p> <p>3 THE WITNESS: It would probably give you</p> <p>4 an indication of when we had -- when we had</p> <p>5 conversations, because typically I don't either by</p> <p>6 phone or text, certainly not by text, strike up a</p> <p>7 conversation with somebody. I mean, you know, if</p> <p>8 somebody wants to talk to me, either call me on the</p> <p>9 phone or come see me. I'm not a big text messaging</p> <p>10 guy. You know, I will text, but as you have already</p> <p>11 seen, my texts are pretty short. So you're not --</p> <p>12 you know, so what it might give you is an indication</p> <p>13 of when there was a conversation, and it might spur</p> <p>14 my memory about what the conversation was about. But</p> <p>15 I think if what she's saying is I've recorded every</p> <p>16 phone -- every conversation we've had since 2016,</p> <p>17 then the best evidence of that would be the</p> <p>18 recordings, which is exactly what I've been saying</p> <p>19 all along.</p> <p>20 I mean -- that's why I've been anxious to</p> <p>21 get all of the recordings, because I think if you</p> <p>22 looked at this in its totality, it won't be me</p>
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<p>1 THE WITNESS: There might be text messages.</p> <p>2 Maybe phone messages. Do you have phone messages?</p> <p>3 MS. CHOY: We have a couple --</p> <p>4 THE WITNESS: There weren't a lot of them</p> <p>5 because there wasn't anything to talk about. I</p> <p>6 mean --</p> <p>7 BY MS. CHOY:</p> <p>8 Q. So what you're referring to are not text</p> <p>9 messages in 2018, you're saying there were either</p> <p>10 phone messages or conversations. I'm trying to</p> <p>11 understand what kind of --</p> <p>12 A. Right. Right. I mean, I don't really,</p> <p>13 from my own perspective, I delete text messages. I</p> <p>14 delete phone messages or phone, you know, my phone</p> <p>15 automatically deletes after 20 days phone -- the</p> <p>16 phone calls that come in. I don't even have to</p> <p>17 necessarily go back and do that.</p> <p>18 MR. PARKER: If we had text messages from</p> <p>19 2017 and 2018, would it give us a fuller</p> <p>20 understanding of the context of your relationship,</p> <p>21 such as it was with Ms. Grimes?</p> <p>22 THE WITNESS: No, not from the text</p>	<p>1 pursuing Ms. Grimes, it won't necessarily be her</p> <p>2 pursuing me either, but it will be her initiating</p> <p>3 conversations with me, a lot more than me initiating</p> <p>4 conversations with her.</p> <p>5 And there won't be many of either one of</p> <p>6 those things, I think, in 2017, 2018. In 2016 there</p> <p>7 may be more of them, but after -- there's just not</p> <p>8 much there. Now, if you got phone recordings -- do</p> <p>9 you have recordings of anything in 2018?</p> <p>10 BY MS. CHOY:</p> <p>11 Q. We discussed the May 8th and May 10th</p> <p>12 call, right? You have said when you talked to Ms.</p> <p>13 Grimes after (b)(6);(b)(7)(C)</p> <p>14 (b)(6);(b)(7)(C) in relation to the selection for the new</p> <p>15 position. But if there's any other conversations you</p> <p>16 recall, that would be helpful in giving us context,</p> <p>17 we'd appreciate you let using us know.</p> <p>18 A. Well, I think you're better off -- if she</p> <p>19 says she's got all of the phone conversations and the</p> <p>20 conversations we've ever had, I think you're better</p> <p>21 off --</p> <p>22 MR. PARKER: We don't have them at this</p>

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1 time. Right? You know that because it's in
 2 litigation.
 3 THE WITNESS: Come back and talk to me
 4 after you have them.
 5 MR. PARKER: For right now, sir, whatever
 6 you want to put on the record, whatever you want to
 7 tell us about this relationship, we're willing to
 8 give you --
 9 THE WITNESS: This is not about a
 10 relationship.
 11 MR. PARKER: I have a relationship with
 12 you, Mr. Watt. I'm one of your subordinate offices.
 13 I am not suggesting anything untoward. So if there's
 14 anything that you want to tell us about this, please.
 15 MR. FAY: It's pretty frustrating, I
 16 mean, we expected a Q and A, that is what you
 17 represented this would be. This is not one of these,
 18 you know, cell block interrogations where you -- tell
 19 me anything about -- that you feel like telling us.
 20 I mean, he's answered every single question, and you
 21 doubled the estimated time we're going to be here.
 22 And whatever you asked him he's going to respond to.

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1 So I think that's the best way to proceed.
 2 MR. PARKER: Do you have anything else
 3 you'd like to tell us about, sir?
 4 THE WITNESS: No not -- I mean, I have my
 5 own timeline.
 6 MR. PARKER: Do you want --
 7 THE WITNESS: I don't think that's
 8 relevant to any hotline complaints. I'm certainly
 9 prepared to tell the EEO investigators what my
 10 sequence -- what I believe the sequence was, but, you
 11 know -- I don't think any of this is related, to be
 12 quite honest, to the hotline complaints were about
 13 the creation of the position.
 14 MR. PARKER: They were, sir.
 15 THE WITNESS: Huh?
 16 MR. PARKER: Some of them were.
 17 THE WITNESS: Well, see, I don't know
 18 what the hotline complaints were. If you want to ask
 19 me questions about what the hotline complaints were,
 20 I'll try to answer them. I'm not trying to avoid
 21 answering questions, but you know, there's another
 22 proceeding going on parallel to this and --

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1 MR. PARKER: It looks like Ms. Choy might
 2 have a question.
 3 MS. CHOY: I do.
 4 BY MS. CHOY:
 5 Q. It's page 2 on the top. So that is the
 6 one where the conversation begins. It's highlighted
 7 in yellow. I just want you to explain and provide
 8 some context to that statement when you say: Is it
 9 better to go through a charade process to get you the
 10 job or is it better for me just to give you the job?
 11 A. This is about (b)(6);(b)(7)(C) This is not about
 12 Ms. Grimes. And I've already told you, I told (b)(6);(b)(7)(C)
 13 that I thought (b)(6);(b)(7)(C)
 14 (b)(6);(b)(7)(C) And there were two ways that we
 15 could do this, either -- if he wanted the job.
 16 Either we could go through the bid process, which I
 17 personally thought was a charade process, would be a
 18 charade process, because I thought, if it were up to
 19 me, given the fact that by this time he had been in
 20 the job for -- when did he get appointed? He was a
 21 (b)(6);(b)(7)(C) By this time he had been in the
 22 job over two years, right?

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1 And so -- and I'm inviting you to look at
 2 his annual performance reviews because every year I
 3 (b)(6);(b)(7)(C)
 4 (b)(6);(b)(7)(C)
 5 (b)(6);(b)(7)(C) But the first couple of times I went to him,
 6 I said, probably -- I think I said to him, I can
 7 either appoint you or we can go through the bid
 8 process. And (b)(6);(b)(7)(C)
 9 (b)(6);(b)(7)(C)
 10 (b)(6);(b)(7)(C)
 11 (b)(6);(b)(7)(C)
 12 (b)(6);(b)(7)(C)
 13 (b)(6);(b)(7)(C)
 14 (b)(6);(b)(7)(C)
 15 And so you didn't highlight the first part
 16 of this sentence. It says, the second question I
 17 asked him is: Will you -- is it better to go through
 18 a charade process to get you the job, or is it better
 19 for me to just give you the job because I don't have
 20 to go through a bid process. That is what I had said
 21 to (b)(6);(b)(7)(C) that has nothing to do with any charade
 22 with Ms. Grimes. So you might do yourself a favor

Redactions on this page concern individuals who are not subjects of the investigation. The text is redacted to protect their privacy.

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1 and highlight the first line of that, too, and not
2 just pick up with the second line, because it's clear
3 if you go back up above that that we're not talking
4 about Ms. Grimes, we're talking about is (b)(6);(b)(7)(C) going
5 to be interested in this taking this position, and if
6 he is going to be interested in taking the position,
7 then that might open up an opportunity for you to bid
8 for the position that he is vacating.

9 Q. You were saying charade process because
10 you would have selected him?

11 A. I felt like -- I felt like from my
12 perspective, two years into this, am I going to go
13 and start over with (b)(6);(b)(7)(C) I
14 mean, you know, I would have been prepared to appoint
15 him to the position without competition. But as it
16 turned out, (b)(6);(b)(7)(C)
17 (b)(6);(b)(7)(C)
18
19
20
21 And then because I think you're trying to
22 provide continuity in the agency, and I don't want to

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1 (b)(6);(b)(7)(C)
2
3
4 and so, yes, I would have been willing to appoint him
5 directly, and I would have been willing, if he had
6 taken the job and wanted to me to go through a bid
7 process, I would have gone through that bid process.

8 I believe that that bid process would have
9 been a charade, but it was all a theoretical
10 discussion at that point because (b)(6);(b)(7)(C) ultimately
11 would come back and say (b)(6);(b)(7)(C)

12 Q. But as acting, you said earlier that
13 there's limitations, right, to be able to take
14 certain actions or decisions?

15 A. There's no limitations (b)(6);(b)(7)(C)
16 (b)(6);(b)(7)(C) about what he should do as an acting
17 person. He can do exactly the same thing as an
18 acting person that he can do as a permanent (b)(6);(b)(7)(C)
19 (b)(6);(b)(7)(C)
20
21
22

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1 (b)(6);(b)(7)(C)
2 (b)(6);(b)(7)(C) Is
3 (b)(6);(b)(7)(C) going to, you know -- that litigation is
4 still pending. You know, it started in 2014, a
5 couple of months after I came here.

6 So there's a remote possibility that the
7 next director (b)(6);(b)(7)(C)
8 (b)(6);(b)(7)(C) I
9 think it's remote, but it could happen. So, you
10 know, there was -- yeah, you know, you know, as he
11 stayed in the position longer and longer, he's gotten
12 more engaged in making decisions that are longer term
13 with a longer view. But this was 2016, we're talking
14 about. And, you know, he got two more years under
15 his belt by now.

16 Q. So you're saying that his prior
17 (b)(6);(b)(7)(C)
18
19 A. (b)(6);(b)(7)(C)
20 but that's not because there's any legal impediment
21 to him making whatever decisions he should make if he
22 were (b)(6);(b)(7)(C)

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1 (b)(6);(b)(7)(C) It's more, how do I perceive my
2 own role, you know. And I'm beginning to have that
3 feeling now in my last 90 days. I'm in my last
4 90 days. The decisions that I make now get perceived
5 different than the, you know, I'm pretty much an
6 acting caretaker in this position. See what I'm
7 saying.

8 So it's hard not to have that perception
9 when your days may be numbered. And it's hard not to
10 have that perception when your days are numbered,
11 because I'm experiencing that myself. But it's not
12 because I don't have the authority to do it. I can
13 make the same decisions now that I made in 2015. But
14 from my own view, I don't want either the next
15 director or the public to perceive that I'm trying to
16 control what happens next year after I'm gone.

17 There was some perceptions that I had to
18 deal with when I came in that the deck had been
19 stacked against me. Right? And I'm conscious of
20 not -- of trying not to leave that perception when I
21 leave.

22 Q. Given what you just said about maybe the

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1 new director would have a vision of how things should
2 be. (b)(5)
3 (b)(5)
4 (b)(5) so the next
5 director could make a call --
6 A. First I've heard of it. I never heard
7 that before from anybody.
8 MR. PARKER: So do you have anything else
9 you want to put on the record, sir?
10 THE WITNESS: No.
11 MR. PARKER: We don't have any further
12 questions, that's why I asked.
13 THE WITNESS: No.
14 MR. FAY: Okay.
15 MR. PARKER: We'll adjourn.
16 (Whereupon, at 6:17 p.m. the interview in
17 the above-entitled matter was concluded.)
18
19
20
21
22

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1 CERTIFICATE OF SHORTHAND REPORTER
2 I, (b)(6);(b)(7)(C) Registered Professional
3 Reporter and Federally Certified Realtime Reporter,
4 the court reporter before whom the foregoing
5 deposition/interview was taken, do hereby certify
6 that the foregoing transcript is a true and correct
7 record of the testimony given; that said testimony
8 was taken by me stenographically and thereafter
9 reduced to typewriting under my supervision; and that
10 I am neither counsel for, related to, nor employed by
11 any of the parties to this case and have no interest,
12 financial or otherwise, in its outcome.
13 IN WITNESS WHEREOF, I have hereunto set my and
14 affixed my notarial seal this 11th day of October,
15 2018.
16 My commission expires August 14, 2022.
17
18
19 (b)(6);(b)(7)(C)
20 NOTARY PUBLIC IN AND FOR
21 THE DISTRICT OF COLUMBIA
22

CERTIFICATE OF DEPONENT

I hereby certify that I have read and examined the foregoing transcript, and the same is a true and accurate record of the testimony given by me.

Any additions or corrections that I feel are necessary, I will attach on a separate sheet of paper to the original transcript.

(b)(6);(b)(7)(C)

Signature of Deponent

I hereby certify that the individual representing himself/herself to be the above-named individual, appeared before me this 1st day of November, 2018, and executed the above certificate in my presence.

(b)(6);(b)(7)(C)

NOTARY PUBLIC IN AND FOR

Washington, District of ColumbiaCity
County NameMY COMMISSION EXPIRES: June 30, 2023

(b)(6);(b)(7)(C)

NOTARY PUBLIC DISTRICT OF COLUMBIA
My Commission Expires June 30, 2023



TRANSCRIPT CORRECTIONS – DEPOSITION DATED 10/11/2018

PAGE/LINE	NOW READS	SHOULD READ
33, 11	"moved to PMO office"	"moved the PMO office"
82, 5	"they"	"there"
93, 14	"stop"	"start"
97, 12	"was"	"was issued to me by FHFA"
97, 15	"carry"	"carry it"
99, 11	"my"	"our"
100, 14	"2014"	"2015"
101, 9	"asked me"	"asked for me"
107, 7	"place."	"place,"
136, 11	"your"	delete "your"
158, 5	"in this taking"	"in taking"

**RESPONSE TO DRAFT OIG REPORT OF
INVESTIGATION OF ALLEGATIONS OF
MISCONDUCT AGAINST FHFA DIRECTOR
MELVIN L. WATT
NOVEMBER 26, 2018**

EXHIBIT 5

Transcript of May 10, 2018 Conversation

Watt: As I am now led to believe, both from the IG and the Special Counsel report, apparently you are the designated candidate. I had not even been advised of that because in the middle, or right after the interview process, they stopped the process. So I guess next week they will restart the process and we can, (b)(6);(b)(7)(C) can make an offer to you and you can decide whether you're taking it. So

Grimes: Okay

Watt: I hope you take it and I hope you'll be back to work, hopefully from my perspective and that perspective, hopefully before the middle of June. But that's up to you all and I'm sure you can work that out and I'm not trying to micromanage that.

Grimes: So, just so you're clear, the complaints that they are going to put forward have to do with you specifically.

Watt: Well, I gathered that they must because any kind of work environment situation I guess I am ultimately responsible for ... so, you know...but

Grimes: It's gonna, I mean, it's gonna be more specific to kind of advances you've made towards me.

Watt: Oh..okay, well, okay well now we're into a me too situation. So, if you're pursuing that, I definitely should cut off any further discussions about it because, you know, I think, you could – I don't want to be in the middle of trying to influence what you're saying on that, so. You know.

Grimes: Okay, yeah. It was a strategy they were putting forward. So when I contacted you I was trying to rationalize in my own, for myself kind of, the series of events. But I'm just gonna go with whatever their counsel is.

Watt: Well if they feel like that will lead somewhere positive, I mean ya'll can assess that, but I don't think I'm free to express any opinion about that because that, that too could be misinterpreted. So these things have to play themselves out and I'm sure you're getting good legal advice and I'm not trying to give you personal advice that is either confirming or at odds with whatever legal advice you might get on that.

Grimes: Okay.

Watt: I hope to see you back at work at some point and I hope it all works out to everybody's advantage.

Grimes: Ok thanks.

Watt: Ok, bye.

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EXHIBIT 6

In Observance of Women's Equality Day



Reflections from FHFA Director Mel Watt:

Talk about a woman who has inspired you to cause a lasting impact on your life/career?

You could probably guess that the woman who has inspired me most, and who had the greatest impact on my life, has been my mother. My mother endured the death of both her parents by age 12, gave birth to three hard-headed sons (including me) by age 18, became a single parent by age 23, made sure each of her sons finished school before she got her GED, never let either of us believe that we were poor or couldn't achieve, and pushed all three of us to be successful in life (two of us finished college and got doctoral degrees).

In our little four room house, she taught us values, responsibility, humility, determination, compassion, and just about every other good thing I can think of. Fortunately, (b)(6);(b)(7)(C) and she continues to inspire me every day.

Do you have different considerations when mentoring women or men?

I never recall establishing a formal mentoring relationship with anyone, but I suspect there are a number of people who may consider that I have mentored them, either informally or by example. I suspect all of them, whether men or women, would say that I was tough, honest, blunt, direct and demanding. I hope they would also say I was fair and that I was

always pushing them to reach and sustain their highest level of excellence and success with integrity, honesty and patient persistence. One of the greatest joys I have as a former practicing attorney is seeing the large number of lawyers who joined my former law firm after I did (and "trained under me") who later became partners, judges, elected officials, or leaders of non-profit organizations fighting for equal justice under the law. One of the greatest joys I have as a former elected official is seeing former staff members either go to law school and become successful lawyers, or find success in the private or public sector. I feel very proud that at least 10 former members of my staff decided to go on to law school. I also have former staff members who later moved on to take responsible positions at companies in the financial services sector or positions with prestigious lobby shops, other members and Committees in Congress, cutting edge non-profits, in state and local governments, and in the executive branch of the federal government (including a former Secretary of Transportation). While I don't pretend to take credit for all of their success, it certainly makes me proud to know that I had at least some influence on the lives of all these people. I'm equally proud to say that, while I've never stopped to count, I'm confident that well over half of them were women.

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