



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2018, through March 31, 2019



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## Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, and the American people. The FHFA Office of Inspector General (OIG or Office) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and holds accountable those, whether inside or outside of the federal government, who waste, steal, or abuse funds in connection with the Agency, Fannie Mae and Freddie Mac (the Enterprises), or any of the Federal Home Loan Banks (FHLBanks).

## Our Mission

OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust law enforcement efforts to protect the interests of the American taxpayers.

## Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we endeavor to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they lead—without fear or favor, report findings that are supported by sufficient evidence in accordance with professional standards, and recommend actions tied to our findings. Our work is independent, risk-based, relevant, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the FHLBanks in its role as supervisor, and its operation of Fannie Mae and Freddie Mac in its role as conservator).

Because FHFA has been placed in the extraordinary role of supervisor and conservator of the two Enterprises, which support over \$5 trillion in mortgage loans and guarantees, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises are satisfying their delegated responsibilities and that taxpayer monies are not wasted or misused.

We emphasize transparency in our oversight work to the fullest reasonable extent and in accordance with our statutory obligations to foster accountability in the use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator, and the need for corrective action.

Report fraud, waste, or abuse on our [hotline webpage](#) or by calling (800) 793-7724.

# Snapshot of OIG Accomplishments

Semiannual Reporting Period  
October 1, 2018–March 31, 2019

|   |                 |
|---|-----------------|
| Reports Issued  | 19              |
| Includes audits, evaluations, compliance reviews, a management alert, a management advisory, administrative inquiries, a special report, and white papers |                 |
| Recommendations made or reopened  | 23              |
| Investigative Activities:   |                 |
| Indictments / Charges   | 50              |
| Arrests   | 27              |
| Convictions / Pleas   | 30              |
| Sentencings   | 41              |
| Suspension / Debarment Referrals to Other Agencies  | 68              |
| Suspended Counterparty Referrals to FHFA  | 17              |
| Investigative Monetary Results:   |                 |
| Criminal Restitution  | \$110,659,243   |
| Criminal Fines / Special Assessments / Forfeitures  | \$82,352,372    |
| Civil Settlements   | \$1,251,600,000 |
| Investigations Total Monetary Results*  | \$1,444,611,615 |

\*Includes money ordered as the result of joint investigations with other law enforcement organizations.

# A Message from the Office of Inspector General

We are pleased to present this Semiannual Report on the operations of the OIG, which covers the period from October 1, 2018, to March 31, 2019.

FHFA has unique responsibilities in its dual roles as conservator and supervisor of the Enterprises and as supervisor of the FHLBanks. Despite their high leverage, diminished capital buffer, conservatorship status, and uncertain future, the Enterprises have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 60%. As of year-end 2018, the Enterprises collectively reported approximately \$5.4 trillion in assets. As conservator of the Enterprises, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions that influence and affect the entire mortgage finance industry. As of year-end 2018, the FHLBanks collectively reported roughly \$1.1 trillion in assets. Given the size and complexity of the regulated entities and the dual responsibilities of FHFA, we structure our oversight program to examine FHFA's exercise of its dual responsibilities. As a result of FHFA's dual responsibilities as conservator and supervisor, OIG's responsibilities are broader than those of OIGs for other prudential federal financial regulators.



Laura S. Wertheimer  
Inspector General

To best leverage our resources to strengthen OIG's oversight, our work is risk-based and is focused on the four management and performance challenges and a management concern facing FHFA, the Enterprises in its conservatorship, and the entities it regulates. See OIG, [Fiscal Year 2019 Management and Performance Challenges](#) (October 15, 2018).

We have established a rigorous process to develop oversight projects based on risk. Once we begin an oversight project, we follow the facts, wherever they lead, without fear or favor. We are a trusted change agent because of our demonstrated independence and objectivity: we ask difficult questions and are not persuaded by rote answers; we critically assess the evidence we obtain during our fieldwork; we report findings that are supported by sufficient evidence in accordance with professional standards; and we recommend practical solutions tied to our findings. Through our audits, evaluations, and compliance reviews, we challenge FHFA to improve its oversight over its conserved entities, enhance its supervision, put more rigorous internal controls into place, and look for and eliminate fraud, waste, and abuse. Our work is independent, relevant, and timely.

During this semiannual period, we published 19 reports, including audits, evaluations, compliance reviews, a management alert, a management advisory, administrative inquiries, a special report, and white papers, which are available on [our website](#), and on [Oversight.gov](#), a publicly accessible,

searchable website containing the latest public reports from federal Inspectors General who are members of the Council of the Inspectors General on Integrity and Efficiency. These 19 reports illustrate the broad scope of our oversight responsibilities.

Where our fact-finding has identified shortcomings, deficiencies, or processes that could be upgraded, our reports include actionable recommendations to assist FHFA in improving the effectiveness and efficiency of its operations. For this semiannual period, we issued 22 recommendations and reopened one. Appendix B of this report summarizes all recommendations made or reopened by OIG during this period, recommendations made in prior periods that remain open (and unimplemented), and closed, unimplemented recommendations. During each reporting period, we update information in Appendix B as new recommendations are issued or recommendations are closed, and we publish the updated information monthly in a [Compendium of Open Recommendations](#) on our website.

Through our robust law enforcement efforts, both civil and criminal, we protect the interests of the American taxpayer. In many of these investigations, we worked collaboratively with our law enforcement colleagues in other agencies. During this reporting period, we successfully conducted a number of investigations involving civil and criminal fraud, which resulted in significant criminal prosecutions and civil fraud enforcement, including:

- 50 indictments/charges;
- 27 arrests;
- 30 convictions/pleas;
- 41 defendants sentenced for an aggregate total of 81 years in prison;
- More than \$193 million in criminal restitutions, fines, special assessments, and forfeitures; and
- More than \$1.2 billion in civil settlements.

Through our written reports and our law enforcement efforts, both civilly and criminally, we hold institutions and their officials accountable for their actions or inactions. The work described in this Semiannual Report demonstrates the importance of effective, fair, and objective investigative oversight conducted by this Office, and the accomplishments described in this Semiannual Report are a credit to its talented and dedicated career professionals.

# Executive Summary

## Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**. HERA charged FHFA to serve as regulator and supervisor of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)** (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. HERA also enhanced FHFA's resolution authority to act as conservator or receiver.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the U.S. Department of the Treasury (Treasury) entered into a **Senior Preferred Stock Purchase Agreement (PSPA)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have invested nearly \$191.5 billion in the Enterprises since 2008. As conservator of the Enterprises, FHFA succeeded to all rights, titles, powers, and privileges of the Enterprises, and of any stockholder, officer, or director of the Enterprises. FHFA is authorized under HERA to:

- Operate the Enterprises and
- Take such action as may be:
  - Necessary to put the Enterprises in a sound and solvent condition and
  - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.<sup>1</sup>

Initially, the conservatorships were intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their eleventh year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity. Since September 2008, FHFA has served in the unique role of both conservator and supervisor of the Enterprises and supervisor of the FHLBank System.

HERA also authorized the establishment of OIG to oversee the work of FHFA pursuant to the **Inspector General Act of 1978**. OIG began operations in October 2010 when its first Inspector General was sworn in. As a result of FHFA's dual responsibilities as supervisor of the Enterprises and the FHLBanks, and, since 2008, as conservator of the Enterprises, OIG's oversight responsibilities are correspondingly broader than those of an Office of Inspector General for other prudential federal financial regulators.

Our mission is to promote economy, efficiency, and effectiveness and protect FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system, and advising the Director of the Agency, Congress, and the public on our findings and recommendations. In doing so, we further the Agency's statutory obligation to ensure that the regulated entities operate in a safe and sound manner and that their operations foster liquid, efficient, competitive, and resilient national housing finance markets. We also engage in robust law enforcement efforts to protect the interests of the regulated entities and the American taxpayers.

<sup>1</sup> [12 U.S.C. § 4617\(b\)\(2\)\(A\), \(B\), \(D\)](#) (2018).

OIG's operations are funded by annual assessments that FHFA levies on the Enterprises and the FHLBanks pursuant to 12 U.S.C. § 4516. For **Fiscal Year (FY) 2019**, OIG's operating budget remained at \$49.9 million.

Terms and phrases in bold are defined in Appendix K, *Glossary and Acronyms*. If you are reading an electronic version of this Semiannual Report, then simply move your cursor to the term or phrase and click for the definition.

## This Report

This Semiannual Report to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of October 1, 2018, to March 31, 2019. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 19 audits, evaluations, compliance reviews, management alerts, management advisories, administrative inquiries, special reports, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 50 indictments/charges, 30 convictions/pleas, and 41 sentencing of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; more than \$193 million in criminal restitutions, fines, special assessments, and forfeitures; and more than \$1.2 billion in civil settlements;
- Summarizes OIG's outreach during the reporting period; and
- Reviews the status of OIG's recommendations.

# OIG's Oversight

## OIG's Risk-Based Oversight Strategy

Currently, FHFA serves as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their eleventh year, are of unprecedented scope, scale, and complexity. FHFA's dual roles continue to present novel challenges. Consequently, OIG must structure its oversight program to examine FHFA's exercise of its dual responsibilities, which differ significantly from the typical federal financial regulator. Beginning in Fall 2014, OIG determined to focus its resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks to best leverage its resources to strengthen oversight. We established an integrated approach to identify these programs and operations of greatest risk and published our initial risk-based plan in February 2015, which is updated annually.

Our [Audit, Evaluation, and Compliance Plan](#), adopted in March 2018, describes FHFA's and OIG's roles and missions, explains our risk-based methodology for developing this plan, provides insight into particular risks within four areas, and generally discusses areas where we will focus our audit, evaluation, and compliance resources. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

An integral part of OIG's oversight is to identify and assess FHFA's top management and performance challenges and to align our work with these challenges. On an annual

basis, we assess FHFA's major management and performance challenges. In October 2018, we identified four challenges (all of which carried over from prior years) and a management concern. In our view, these are the serious management and performance challenges facing FHFA for the foreseeable future and, if not addressed, could adversely affect FHFA's accomplishment of its mission. (See OIG, [Fiscal Year 2019 Management and Performance Challenges](#) (October 15, 2018)). During this reporting period, OIG continued to focus much of its oversight activities on identifying vulnerabilities in these areas and recommending positive, meaningful actions that the Agency could take to mitigate these risks and remediate identified deficiencies. These challenges and the management concern are:

- ***Supervision of the Regulated Entities – Upgrade Supervision of the Enterprises and Continue Robust Supervision of the FHLBanks***

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises.

As a former FHFA Director observed, Fannie Mae and Freddie Mac would be Systemically

Important Financial Institutions (SIFIs), but for the conservatorships, and are subject to the heightened supervision requirements for SIFIs, except that they are supervised by FHFA, not the Federal Reserve. Because the asset size of the FHLBanks is a fraction of the asset size of the Enterprises and because the Enterprises are in conservatorship, we determined that the magnitude of risk is significantly greater for the Enterprises. Since the Fall of 2014, the majority of our work on supervision issues has focused on FHFA’s supervision of the Enterprises.

Over the past few years, we have assessed critical elements of DER’s supervision program for the Enterprises. For each element that we assessed, we issued reports that identified shortcomings and recommended remedial actions.

Based on our assessments of different elements of DER’s supervision program, we identified four recurring themes, which were explained in a roll-up report issued during FY 2017.<sup>2</sup> Those themes are:

1. FHFA lacks adequate assurance that DER’s supervisory resources are devoted to examining the highest risks of the Enterprises.
2. Many supervisory standards and guidance issued by FHFA and DER lack the rigor of those issued by other federal financial regulators.
3. The flexible and less prescriptive nature of many requirements and guidance promulgated by FHFA and DER has resulted in inconsistent supervisory practices.

4. Where clear requirements and guidance for specific elements of DER’s supervisory program exist, DER examiners-in-charge and subordinate examiners have not consistently followed them.

In that roll-up report, we cautioned that “[w]ithout prompt and robust Agency attention to address the shortcomings we have identified,” the “safe and sound operation of the Enterprises cannot be assumed from FHFA’s current supervisory program.” The findings from subsequent audits, evaluations, and compliance reports regarding FHFA’s supervision program for the Enterprises identified additional shortcomings. In light of the observation that the Enterprises would be SIFIs, but for the conservatorships, FHFA must make a heightened and sustained effort to improve its supervision of the Enterprises.

We also looked at elements of FHFA’s supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

- ***Conservatorship Operations – Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters***

As conservator of the Enterprises since September 2008, FHFA has expansive authority to oversee and direct operations of two large, complex financial institutions that

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<sup>2</sup> See [OIG, \*Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA’s Supervision Program for the Enterprises\* \(OIG-2017-003, Dec. 15, 2016\).](#)

dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S. housing finance industry. Under HERA, FHFA, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their business activities. Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

FHFA has delegated authority for many matters, both large and small, to the Enterprises. FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions).

Since the Fall of 2014, OIG's body of work has found that FHFA has limited its oversight of delegated matters largely to attendance at Enterprise internal management and board meetings as an observer and to discussions with Enterprise managers and directors. Read together, our findings in these reports show that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions. FHFA also has not clearly defined the Agency's expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters. Our work has identified **internal control** systems at the Enterprises that fail to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we have identified a lack of rigor

by some directors in seeking information from management about the matters for which they are responsible. We have also identified instances in which corporate governance decisions generally reserved to the board of directors have been delegated to management.

As the Enterprises' conservator, FHFA is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises.

Generally, FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. FHFA has established written internal review and approval processes for non-delegated matters, designed to provide a consistent approach for analyzing and resolving such matters and for providing decision-makers with all relevant facts and existing analyses. FHFA faces challenges in ensuring that its established processes are followed.

- ***Information Technology Security – Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA***

Cybersecurity, as defined by the National Institute of Standards and Technology (NIST), is the process of protecting information by preventing, detecting, and responding to attacks. In May 2017, President Trump issued an executive order to strengthen the cybersecurity of federal networks and critical infrastructure. The Financial Stability Oversight Council (FSOC), of which FHFA is a member, has identified cybersecurity oversight as an emerging threat for increased regulatory attention. The Council reported that cybersecurity-related incidents create

significant operational risk, which may impact critical services in the financial system, and ultimately affect financial stability and economic health.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its supervisory activities for the financial institutions it supervises. These supervisory activities may be made increasingly difficult by FHFA's continuing need to attract and retain highly-qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

Computer networks maintained by federal government agencies have proven to be a tempting target for disgruntled employees, hackers, and other intruders. Over the past few years, cyber attacks against federal agencies have increased in frequency and severity. As cyber attacks continue to evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency to fortify and safeguard its internal systems and operations.

As conservator of and supervisor for the Enterprises and supervisor for the FHLBanks, FHFA collects and manages sensitive information, including personally identifiable information (PII), that it must safeguard from unauthorized access or disclosure. Equally important is the protection of its computer network operations that are part of the nation's critical financial infrastructure. FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

• ***Counterparties and Third Parties – Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties***

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk, including the risk that the counterparty will not meet its contractual obligations, and the risk that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its supervisory activities.

Our publicly reportable criminal investigations include inquiries into alleged fraud by different types of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies.

In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of risks related to their counterparties.

• ***Management Concern: Sustain and Strengthen Internal Controls Over Agency and Enterprise Operations***

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency.

In January 2019, there was a leadership change with the appointment of an acting

FHFA Director, while the Senate considered the President's nominee for the next FHFA Director. Key senior positions within FHFA have been filled on an acting capacity for a long period of time (e.g., Chief Operating Officer and, until recently, the Division of Conservatorship Deputy Director). Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

Both Enterprises have also experienced significant leadership changes. For example, in late March 2019, Fannie Mae appointed a new Chief Executive Officer (CEO); that individual had been serving as Interim CEO with the departure of the previous CEO in October 2018. In addition, Freddie Mac announced that its CEO will retire with its current President to take over as CEO in July 2019. Among other things, changes in leadership can lead to lack of attention to internal controls.

## OIG Impact Through its Oversight Initiatives

Since the Fall of 2014, OIG has developed and implemented new initiatives and enhanced existing processes to strengthen its oversight and provide FHFA with critical information necessary to improve its programs and operations. Given the size and complexity of the regulated entities and the unique, dual responsibilities of FHFA, making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

### Office of Risk Analysis

To assist in making those choices, we created, in 2015, the Office of Risk Analysis (ORA)

to enhance our ability to focus our resources on the areas of greatest risk to FHFA. ORA is tasked with identifying, analyzing, monitoring, and prioritizing emerging and ongoing risks and with educating stakeholders on those issues. Through its work, it has contributed data and information to our annual risk-based planning process for audits, evaluations, and compliance reviews. It has also made significant contributions to our online knowledge library accessible to OIG employees.

During this reporting period, ORA issued three white papers discussing areas of potential emerging and ongoing risks.

### White Paper: Subprime Mortgages: Enterprise and FHFA Reporting

Fannie Mae reported in annual reports on Form 10-K for 2008 to 2017 that it was not currently acquiring new subprime mortgages. Freddie Mac told us it had never acquired subprime mortgages for its **guarantee** portfolio (though it had guaranteed a *de minimis* amount of structured securities backed by loans identified as subprime by the original issuer).

Under HERA, the FHFA Director is required to issue annual reports that identify the extent of Enterprise involvement in purchases of subprime mortgages and compare the characteristics of subprime mortgages acquired and securitized by the Enterprises to other loans that they acquired and securitized. Our review of FHFA's Annual Housing Reports through 2017 found that none explicitly did so. In October 2018, FHFA reported that the Enterprises are not involved in mortgage purchases and secondary market activities involving subprime loans. However, FHFA told us that it had not defined subprime for this purpose. According to the Agency, the statement reflects the fact that the Enterprises purchase

very few mortgages that could plausibly be characterized as subprime.

HERA also requires the FHFA Director to conduct a monthly survey of mortgage markets to collect data, including the characteristics of subprime loans and subprime borrowers, and to make a determination of whether the borrowers would have qualified for prime lending. FHFA has been working to develop the National Mortgage Database (NMDB), and it represented in recent Annual Reports to Congress that the NMDB will enable FHFA to meet subprime data requirements in HERA. However, FHFA subsequently told us that the NMDB, as currently designed, does not enable FHFA to make that determination. An FHFA official told us that the Agency spent about a year thinking about how to meet this requirement and decided not to pursue it.

In light of the possible increase in subprime mortgage products and FHFA's lack of definition of subprime, we sought reporting requirements and available information to understand the risks to the Enterprises from subprime mortgages. (See OIG, [Subprime Mortgages: Enterprise and FHFA Reporting](#) (WPR-2019-001, March 27, 2019)).

### **White Paper: An Overview of Enterprise Debt-to-Income Ratios**

The Enterprises' automated **underwriting** systems consider a borrower's debt-to-income (DTI) ratio, along with other factors, to determine if a mortgage is eligible for purchase. An overlay describes the additional requirements placed on top of an automated underwriting system's risk assessment. In April 2017, FHFA issued a directive to the Enterprises that required them to ensure that their automated underwriting systems operate so that DTI alone was not the reason for a mortgage with up to 50% DTI to be deemed

ineligible. Additionally, the Enterprises had to eliminate any DTI-related overlays for mortgages up to 50% DTI.

Beginning in the latter part of 2017, both Enterprises experienced an increase in their acquisitions of mortgages with a DTI ratio greater than 45% up to 50% (maximum allowable DTI). FHFA internal reports also show that Enterprise mortgages acquired with maximum allowable DTI and either a loan-to-value (LTV) ratio greater than 95% or a credit score less than 680 increased after implementation of the FHFA directive.

We summarized the evolution of the Enterprises' DTI limits, explained FHFA's 2017 directive related to mortgages with maximum allowable DTI, and detailed subsequent DTI developments to provide an understanding of the risks from the maximum allowable DTI directed by FHFA. (See OIG, [An Overview of Enterprise Debt-to-Income Ratios](#) (WPR-2019-002, March 27, 2019)).

### **White Paper: The Enterprises' Use of 12-Month Recourse as a Credit Enhancement Under Their Charters**

Recourse is one of the three credit enhancements permitted by the Enterprise charters for single-family loans with LTV ratios greater than 80%; however, it amounts to significantly less than 1% of the Enterprises' business. When used in these limited circumstances, it has primarily been for mortgages purchased by the Enterprises to meet their affordable housing goals. According to FHFA, lender concerns with complex accounting treatment made the use of longer-term recourse agreements challenging. FHFA regards 12-month recourse when used in conjunction with certain other forms of additional credit enhancement as complying with the credit enhancement requirement in the Enterprise charters.

On March 19, 2019, FHFA issued guidance to the Enterprises that established consistent standards for the Enterprises to use recourse as a credit enhancement under the charters. FHFA eliminated the need for the Enterprises to seek approval for individual recourse agreements that met one of four options. Each option required a minimum 12-month recourse period, with an additional credit enhancement or backstop beyond 12 months to reduce Enterprise exposure in the event of borrower **default**. On an annual basis, at least 65% of the recourse mortgages, other than recourse-only agreements, must fulfill specified affordable housing purposes.

We published a white paper to explain the use of recourse as a credit enhancement for mortgages eligible for purchase by the Enterprises. (See OIG, [\*The Enterprises' Use of Recourse as a Credit Enhancement Under Their Charters\*](#) (WPR-2019-003, March 29, 2019)).

### Administrative Inquiries

During the reporting period, OIG completed several administrative inquiries into hotline complaints. Administrative inquiries provide additional, targeted oversight where specific waste, fraud, and/or abuse has been alleged. Reports of completed inquiries keep FHFA senior management, Congress, and the public informed of risks and shortcomings in agency programs and operations. Results of public administrative inquiries are discussed in the next section, *OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period*.

### Office of Compliance and Special Projects

Recommendations to address deficiencies identified during an audit, evaluation, or administrative inquiry require meaningful

follow-up and oversight to ensure that the recommendations have been fully implemented and the shortcomings that gave rise to the recommendations have been corrected. Created in December 2014, the Office of Compliance and Special Projects (OCom) has strengthened our capacity to perform compliance reviews to determine whether FHFA has fully implemented our recommendations. OCom has several responsibilities:

- *Closure of Recommendations*. When FHFA believes that its implementation efforts are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents. Each respective operational division that conducted an audit or evaluation reviews the materials and representations submitted by the Agency to determine whether to close recommendations—and may close some recommendations based on the Agency's representations as to corrective actions it has taken. OCom tracks these decisions and communicates with each OIG division prior to the closure of a recommendation to ensure we are applying a single standard across OIG for closing recommendations.
- *Tracking of Recommendations*. OCom maintains a database in which it tracks the status of all recommendations issued by OIG in its reports.
- *Validation Testing*. We are not always able to assess, at the time of closure, whether the implementation actions by FHFA meet the letter and spirit of the agreed-upon recommendation, nor can we determine, at closure, whether the underlying shortcoming has been addressed. OCom conducts

validation testing on a sample of closed recommendations to hold FHFA accountable for the corrective actions it has represented it has implemented. We publish the results of that validation testing to enable our stakeholders to assess the efficacy of FHFA's implementation of actions to correct the underlying shortcoming.

Compliance reviews enhance our ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA, and OCom's validation testing is a key component. Overall, we validated that since January 2015, FHFA has adequately implemented 12 of the 20 recommendations (60%) we tested and has not implemented the remaining 8 (40%).

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. During this reporting period, OCom issued three compliance reviews and one special report, which are discussed in the next section, *OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period*.

# OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period

OIG fulfills its oversight mission through four operational offices. In this section, OIG discusses its oversight activities in three of its operational offices: the Office of Audits, the Office of Evaluations, and OCom. During this reporting period, OIG published 16 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges and the one management concern that we identified above.

## Office of Audits

The Office of Audits (OA) conducts independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. As required by the Inspector General Act, OA performs its audits in accordance with the audit standards promulgated by the Comptroller General of the United States, which are known as generally accepted government auditing standards or GAGAS.

## Office of Evaluations

The Office of Evaluations (OE) conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the **Inspector General Reform Act of 2008**, IGs are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the standards CIGIE established for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation* (Blue Book).

## Office of Compliance and Special Projects

Typically, when an agency accepts an IG recommendation and takes steps to implement the corrective action, the agency reports on its efforts to the IG and the IG relies on materials and representations from the agency to close the recommendation. As discussed in the prior section, the validation testing conducted by OCom holds FHFA accountable for the corrective actions it has represented it has implemented.

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. OCom performs its compliance reviews and special projects in accordance with the Blue Book.

## Oversight Activities This Period

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the risk-based areas on which we intend to focus our audit, evaluation, and compliance resources during the calendar year. That risk-based work plan aligns OIG's work to the top management and performance challenges we have identified to FHFA. For FY 2019, we also identified a management concern facing FHFA: working to sustain and strengthen internal controls over Agency and Enterprise operations.

We now discuss our oversight activities executed by OA, OE, and OCom during the reporting period by each risk area and our assessment of certain FHFA agency operations and internal controls.

## Agency Operations and Internal Controls

During this reporting period, we completed two administrative inquiries, a management alert, and two audits relating to agency operations and internal controls.

### Report of Administrative Inquiry into Allegations of Misconduct by the Then-FHFA Director

We received several anonymous hotline complaints in the summer of 2017 alleging that: (1) a senior FHFA official inappropriately created an executive position in the FHFA Office of the Chief Operating Officer for an FHFA employee, the Project Management Office (PMO) Manager; (2) that official 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. We conducted an administrative inquiry into these allegations. At the conclusion of our fact finding, 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 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 then-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 then-FHFA Director, as well as three purported transcripts of other conversations between the PMO Manager and the then-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 then-FHFA 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 then-FHFA Director misused his government position for personal gain by creating an unnecessary executive position for the PMO Manager. We opened a new administrative inquiry into these complaints, and added the five prior anonymous hotline complaints that 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 then-FHFA Director.

The Inspector General Act requires Inspectors General to timely report substantiated allegations of misconduct by senior agency officials. We determined that the information we obtained during our administrative inquiry provided a sufficient basis to substantiate one allegation of misconduct by the then-FHFA Director and to give rise to a second finding of misconduct. We found that: (1) the then-FHFA Director misused his official position to attempt to obtain a personal benefit and (2) he was not candid with OIG.

**Misuse of Official Position.** 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 then-FHFA Director was bound by the Standards. We found that the then-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 then-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 then-FHFA 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 then-FHFA Director's apartment, the then-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 found 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.

**Lack of Candor.** 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 then-FHFA Director on February 15, 2018, in connection with the initial administrative inquiry regarding these matters, we advised the then-FHFA 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 found that the then-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 issued the report to the President of the United States for such action as he deemed appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. We referred to the OSC certain allegations for its review and determination and provided to OSC the evidentiary record we compiled in our second inquiry. (See OIG, [\*Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director\*](#) (OIG-2019-001, November 29, 2018)).

### **Management Alert: Improper Hiring of Relatives of FHFA Employees for Summer Internships**

As a result of an anonymous hotline complaint, we conducted an inquiry and issued a management alert regarding the improper hiring of relatives of FHFA employees for summer internships. FHFA hires college students for paid summer internships through the Pathways Internship Program, a federal government-wide internship program. Although regulations issued by the Office of Personnel Management permit a Pathways intern to work in the same agency with a relative “when there is no direct reporting relationship” and the relative is “not in a position to influence or control the Participant’s appointment, employment,

promotion or advancement within the agency,” there are additional legal restrictions on the hiring of relatives. Specifically, federal law prohibits (1) federal employees from hiring, or advocating for the hiring, of their relatives and (2) hiring officials from awarding preference to applicants because they are relatives of employees.

FHFA has a long-standing practice of hiring relatives of Agency employees for summer internships. In 2011, OIG’s Office of Investigations (OI) investigated a hotline complaint alleging improper hiring of summer interns who were relatives of FHFA employees. At that time, OI found that 9 of 32 interns hired for the summer of 2011 were relatives of FHFA employees and advised FHFA to develop a policy regarding the hiring of relatives. However, we discovered during this inquiry that FHFA never developed such a policy and that the practice of hiring relatives of FHFA employees as summer interns has continued at such a level that it was described as a “norm” by a senior FHFA official.

During our inquiry, we reviewed the 2017 and 2018 internship hiring data. We also interviewed the employees whose relatives obtained internships and the managers who hired those interns during those two years. We found that, in 2017, FHFA hired 39 paid college interns, 5 of whom (12.8%) were relatives of employees. In 2018, FHFA hired 27 paid college interns, 4 of whom (14.8%) were relatives of employees. We also determined that during 2017 and 2018 two FHFA employees sought to “influence” the hiring of their relatives by advocating or otherwise interceding on their behalf, and three FHFA employees improperly awarded preferences for summer internships to three relatives of other FHFA employees.

Our management alert made six recommendations, to which FHFA agreed.

(See OIG, [\*FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees\*](#) (OIG-2019-004, March 26, 2019)).

### **Audits of FHFA Offboarding Processes During 2016 and 2017: Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed; Post-Employment Restrictions and Financial Disclosure Requirements Were Followed**

When employees separate from FHFA, they are required to go through an “offboarding” process, which has several elements.

We completed two audits this period on FHFA’s offboarding processes for calendar years 2016 and 2017. Sound offboarding processes are important because the failure by an agency to adopt and implement effective offboarding controls could lead to facilities being wrongfully accessed and assets, including information, being lost, stolen, or misused.

In one audit, we assessed the adequacy of FHFA’s controls over its offboarding processes for facility access cards (issued by FHFA and by the Enterprises), sensitive information technology (IT) assets, and Agency records. We found that some of FHFA’s offboarding controls and some of its implementation of other controls were inadequate. For example, our testing identified inadequate implementation of the control requiring collection of Personal Identity Verification (PIV) cards and Enterprise access cards. FHFA’s inadequate record-keeping frustrated our efforts to determine whether FHFA collected PIV cards from some individuals who offboarded during the review period. Because we could not make that determination, we tested whether building access had been deactivated for these individuals. We found that it was deactivated

for all except a contractor employee, who departed from FHFA in April 2017 but retained building access until January 2019.

Our testing identified that Enterprise records reflected that certain separated employees and departed contractor employees had active Enterprise access cards in 2018. We determined that (1) FHFA did not maintain a list of separated employees and/or departed contractor employees who returned Enterprise access cards and (2) FHFA did not have written procedures for the collection and deactivation of access cards for FHFA facilities and collection and transfer of Enterprise access cards.

During the review period, separating FHFA employees were required to complete a Pre-Exit Clearance Form, which required them to collect sign-off signatures from each identified FHFA office that its offboarding requirements had been satisfied. Our testing found that FHFA maintained the forms for all but three separated employees. Our review of the retained forms found that 78% of the forms were completed and 22% were not.

During the review period, FHFA required the use of a checklist to track the return of sensitive IT assets. However, FHFA could provide a checklist for only 4% of separated employees and departed contractor employees. FHFA explained that the lack of checklists for these individuals was a records management failure by a former Help Desk contractor.

We also tested FHFA’s offboarding form for the return of Agency records and disposition of nonrecords, which all separating employees and departing contractor employees were required to complete. Again, FHFA could not provide all the offboarding forms. Of the forms provided, we found that many were not completed properly.

In a written management response, FHFA agreed with the five recommendations in our report on this first audit. We consider FHFA's planned corrective actions responsive to those recommendations. (See OIG, [\*FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017\*](#) (AUD-2019-004, March 13, 2019)).

In the second audit, we performed two audit tests to assess FHFA's controls over its employee offboarding process related to post-employment restrictions and financial disclosure requirements. From our tests, we found that FHFA's controls over post-employment restrictions and financial disclosure requirements for separating employees during 2016 and 2017 were followed. We made no recommendations in the report for this audit. (See OIG, [\*FHFA's Controls over Post-Employment Restrictions and Financial Disclosure Requirements for Offboarded Employees Were Followed During 2016 and 2017\*](#) (AUD-2019-005, March 13, 2019)).

### **Administrative Inquiry: Review of Alleged Badgering and Harassment of FHFA Employees that Play an Important Role in the Agency's Internal Control Framework**

OIG conducted an administrative inquiry into allegations contained in an anonymous hotline complaint. These allegations raised concerns about: (1) a conflict of interest on the part of an FHFA senior official with respect to an internal control function under his authority; and (2) FHFA employees badgering and harassing FHFA staff who play an important role in the Agency's internal control framework.

We previously conducted an inquiry into the virtually identical allegation of conflict

of interest on the part of the named FHFA senior official. OI concluded, at the end of its inquiry, that it was unable to substantiate the allegations and closed the matter.

This inquiry focused on the allegation of badgering and harassment of FHFA personnel who play an important role in the Agency's internal control framework. Because an effective internal control framework is critical to FHFA's ability to achieve its mission and objectives, we recognize that badgering and harassment of such personnel, if substantiated, could undermine the effectiveness of the overall internal control framework. We interviewed relevant FHFA employees and reviewed Agency records and pertinent materials as part of our inquiry. Based on this work, we were unable to substantiate the allegation. (See OIG, [\*Summary of Administrative Inquiry: The Office of Inspector General's Review of Alleged Badgering and Harassment of FHFA Employees that Play an Important Role in the Agency's Internal Control Framework\*](#) (OIG-2019-003, March 13, 2019)).

## **Conservatorship Operations**

### **Delegated Matters**

FHFA, as conservator, has delegated to each Enterprise responsibility for a significant portion of day-to-day management and risk management controls. For this governance approach to succeed, FHFA must be confident that the Enterprises' directors and committees are properly exercising the powers they have been given and fulfilling their responsibilities.

During this reporting period, we issued one special report, two evaluations, one audit, and one management advisory in connection with delegated matters.

## **Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight Over a \$2.13 Billion, Seven-Year Project**

In 2012, FHFA directed the Enterprises to build a Common Securitization Platform (CSP or Platform) to replace their current separate “back-office” systems and to issue a single mortgage-backed security (single security). As originally envisioned, the CSP was intended to facilitate issuance of **mortgage-backed securities (MBS)** by multiple market participants in a future housing finance system. In May 2014, the then-FHFA Director decided to limit the current scope of the Platform to working “for the benefit of Fannie Mae and Freddie Mac” and committed to transparency in its development.

The first phase of CSP development, Release 1, was rolled out in November 2016. Release 1 allowed Freddie Mac to use the CSP to issue single-family fixed-rate MBS. Under the second phase, Release 2, both Enterprises will use the CSP to issue the new single security. Release 2 is now scheduled for completion by June 2019.

In December 2016, we reported that FHFA had not fully met its commitment to transparency around the development of the CSP. We found that the Agency publicly disclosed only the actual costs incurred to develop and test the CSP; represented to Congress that, as of the first quarter of 2016, the actual and projected costs to develop and test the CSP through 2018 totaled \$696 million; and did not disclose to Congress or the public what it knew about the Enterprises’ actual and projected integration costs. We also found that FHFA had not publicly disclosed the risks to successful development and implementation of the CSP.

During this reporting period, we conducted a review to determine whether (1) FHFA honored its commitment to transparency about the CSP by disclosing updated projections for the total cost (development and integration) of the CSP and its internal assessment of the risks of this project after December 2016; and (2) FHFA exercised adequate oversight of the CSP project. We found that: (1) FHFA was not transparent; and (2) its oversight of the CSP project was inadequate.

FHFA issued a public update in March 2017, in which it projected a total of \$1.12 billion in CSP development costs. However, FHFA did not disclose the projected \$955 million cost to integrate the Enterprises’ IT systems into the CSP. Because a thorough review of the program was conducted in late 2016, FHFA was aware that the CSP development was “off track” with a significant risk of untimely completion and additional costs. However, it disclosed no known issues or risks in its March 2017 update. It announced that Release 1 had been implemented but reported that Release 2 would be delayed by six months, until the second quarter of 2019.

Since March 2017, FHFA has provided no further cost information in public updates. Our review of internal FHFA documents found that, as of February 2019, FHFA projected a total of \$2.13 billion in costs for development of the Platform and integration by the Enterprises by June 30, 2019. Although the Agency has asserted that the Platform was developed using standard industry technology and interfaces, it acknowledged to us that it has yet to develop plans, establish a timetable, and determine the costs for use of the Platform by any third party. (See [OIG, \*Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a \\$2.13 Billion, Seven-Year Project\* \(OIG-2019-005, March 29, 2019\)](#)).

## **FHFA’s Approval of Senior Executive Succession Planning at the Enterprises Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation**

During this reporting period, we issued two reports that evaluated FHFA oversight of the Enterprises’ boards of directors succession planning efforts.

Under HERA, FHFA is empowered to operate the Enterprises “with all the powers of the shareholders, the directors, and the officers” while the Enterprises remain in conservatorship. FHFA delegated responsibility to the respective boards of directors to develop a succession plan for the CEO and President positions and select candidates for vacant CEO and President positions, and the selections are subject to review by FHFA as conservator. According to FHFA, it has, as a practical matter, chosen to approve such selections after review. FHFA has retained the responsibility to approve compensation actions for senior executive officers.

FHFA reported to us that the then-FHFA Director raised the need for succession planning with the Fannie Mae Board Chair in 2018, following the CEO’s notice of his likely departure. In June 2018, the Board Chair submitted the Board’s written proposed transition plan for directors and senior executive leadership (Board Transition Plan) to FHFA for approval. The Fannie Mae Board Transition Plan represented that the statutory cap of \$600,000 on compensation for Enterprise CEOs imposed by the Equity in Government Compensation Act of 2015 created challenges to recruit internal and external qualified candidates for the CEO position.

To address these challenges, the Board Transition Plan recommended a change

to Fannie Mae’s management structure by filling the positions of President and CEO with separate individuals. (Since 2008, those positions had been held by one individual.) Under the Fannie Mae Board Transition Plan, certain responsibilities previously executed by the individual holding the CEO and President positions would be assigned to the position of President. The Fannie Mae Board proposed that the annual compensation for the President position should be no less than Fannie Mae’s most highly compensated Fannie Mae officer, which was then \$3.25 million. The then-FHFA Director approved the Board Transition Plan in July 2018.

We found that FHFA’s approval of the Fannie Mae Board Transition Plan acted to circumvent the congressionally mandated cap of \$600,000 on CEO compensation. By authorizing Fannie Mae to fill the positions of CEO and President with two separate individuals and transfer substantial responsibilities from the CEO and President to the President position, FHFA permitted Fannie Mae to compensate its President at a level more than five times greater than the statutory cap. After the current President had served in the position for less than seven weeks, the Board approved an 11% increase in the President’s target compensation, raising it to \$3.6 million per year, which FHFA approved in October 2018. Fannie Mae is now compensating its interim CEO and President a total of \$4.2 million to execute the same responsibilities for which it had previously paid \$600,000.

In addition, we found that the then-FHFA Director overrode internal controls for processing, tracking, and monitoring requests for conservator approval, which he was authorized to do, when he determined to review the Fannie Mae Board Transition Plan directly, without any staff analysis or recommendation. The decision by the then-

FHFA Director to override established FHFA internal controls for conservator review and approval of an Enterprise request created an information vacuum within the Division of Conservatorship (DOC) and rendered it unable to execute its responsibilities.

To address these shortcomings, we recommended that FHFA (1) re-assess the appropriateness of the annual compensation award of \$3.6 million to the Fannie Mae President; and (2) establish a process for maintaining and monitoring sensitive conservator requests in its tracking system. FHFA disagreed with our first recommendation and agreed with our second recommendation. (See OIG, [\*FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation\*](#) (EVL-2019-001, March 26, 2019)).

In a companion report, we focused on FHFA oversight of the Freddie Mac Board of Directors. FHFA reported that Freddie Mac's CEO, who has served as CEO since May 2012, advised the Freddie Mac Board that he intended to retire during the second half of 2019. In May 2018, the Freddie Mac Board Chairman provided the then-FHFA Director with a Board Transition Plan that included recommendations to address this transition. The Freddie Mac Board Transition Plan stated that the statutory cap on the compensation of Enterprise CEOs of \$600,000, imposed by the Equity in Government Compensation Act of 2015, created challenges to Freddie Mac's ability to recruit qualified external candidates and an external search could be disruptive to existing internal leadership. The then-FHFA Director responded in writing to the Board Transition Plan, advising the Freddie Mac Board that the plan "strikes us as being very reasonable" and concurred with the Board's request to forego an external search. Over the following months, the Freddie Mac

Board Transition Plan was refined to include: designation of the senior executive who would succeed the CEO after his retirement; creation of a "Deputy CEO" position to be filled by this designated senior executive for one year; mentorship of the Deputy CEO by the CEO until his retirement; and a proposed compensation package for the Deputy CEO position at a level no less than the highest paid executive who reported to the CEO (then \$3.25 million).

Acting upon a written staff recommendation, the then-FHFA Director approved this executive compensation package of \$3.25 million for the Deputy CEO position on August 15, 2018. Despite FHFA's earlier response to Freddie Mac that the Board Transition Plan was reasonable, FHFA notified Freddie Mac after August 15, 2018, that the Enterprise would need to conduct an external search for a CEO and title the new position "President," rather than Deputy CEO. FHFA approved creation of the position of President with the understanding that the individual in that position would serve as the "understudy" to the CEO and execute only those responsibilities previously executed by the CEO and now delegated to him over a one-year period.

We found that FHFA's approval of a \$3.25 million compensation package for the Deputy CEO position (which was never created) and subsequent approval of the same compensation for the President position, acted to circumvent the congressionally mandated cap of \$600,000 on CEO compensation. As a result of FHFA's approval, Freddie Mac provided a total of \$3.85 million in compensation for the same set of CEO responsibilities for which it previously paid \$600,000. We recommended that FHFA re-assess the appropriateness of the Freddie Mac President's \$3.25 million compensation. FHFA disagreed with our recommendation.

*FHFA's Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation* (EVL-2019-002, March 26, 2019)).

### **Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015 – 2017**

Fannie Mae manages the quality of its mortgage purchases by requiring mortgage sellers to comply with its Selling Guide. The Selling Guide sets forth Fannie Mae's underwriting standards and eligibility guidelines, as well as its policies and procedures related to sales of single-family mortgages to it. Fannie Mae's underwriting standards are developed, in part, based on risk-based criteria which enables it to evaluate a borrower's willingness and capacity to repay a mortgage and the value of the property to ensure that it provides adequate collateral for the mortgage. Risk-based criteria relating to a borrower's willingness and capacity include DTI ratio, LTV ratio, and credit score while collateral value is assessed through property valuation. None of these criteria are considered in a vacuum but are considered together to build a snapshot of the potential risk level of the mortgage.

Historically, many mortgage sellers sought to sell mortgages to Fannie Mae that did not meet the underwriting standards and/or eligibility requirements in the Selling Guide. Fannie Mae captured these negotiated terms, referred to as variances, with its mortgage sellers in a document called a "master agreement." Each master agreement supplemented the general requirements of the Selling Guide and set forth the additional negotiated terms under which Fannie Mae agreed to purchase mortgages from the mortgage seller.

We completed an audit in which we sought to assess FHFA's oversight of Fannie Mae's master agreements with its single-family mortgage sellers from 2015 through 2017 (review period). As part of the audit, we analyzed master agreements for Fannie Mae's top three single-family mortgage sellers and found no variation between the terms in the master agreements for DTI ratio, LTV ratio, credit score, and property valuation method from the terms for the same element set forth in the Selling Guide.

We also obtained information from FHFA and Fannie Mae and analyzed loan-level data in FHFA's Mortgage Loan Integrated System (MLIS) for all single-family mortgage sellers to determine whether the credit terms for DTI ratio, LTV ratio, credit score, and property valuation methods for the mortgages purchased by Fannie Mae differed from those credit terms in the governing Selling Guide. For the single-family mortgages purchased by Fannie Mae during the review period (nearly 6.46 million mortgages with a total unpaid principal balance of \$1.49 trillion), through our analysis, we identified some differences with these credit terms, but those differences were not material (less than one-tenth of 1% of the mortgages purchased by Fannie Mae during the review period).

We did, however, identify issues with the reliability of certain data fields in MLIS. Specifically, we found instances where data fields for our selected credit terms were either missing information or were shown as "unknown," particularly with respect to the data field for property valuation method. FHFA subsequently brought this matter to Fannie Mae's attention for resolution.

Our report also identified examples where FHFA performed oversight of Fannie Mae's use of master agreements.

We made one recommendation to address the MLIS property valuation method data field. FHFA agreed with the recommendation. (See OIG, [Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017](#) (AUD-2019-006, March 27, 2019)).

### **Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018**

OIG received an anonymous hotline complaint alleging wasteful spending practices by the Senior Vice President (SVP) of a Freddie Mac business unit. We determined that we had previously reviewed certain allegations in this complaint as part of an administrative inquiry into an earlier hotline complaint and we reported those results in our prior semiannual report (See OIG, [Management Advisory: Freddie Mac's Reimbursement of Certain Employees' Commuting Expenses](#) (OIG-2018-003, September 6, 2018)).

The two remaining allegations claimed that the SVP was exempt from Freddie Mac's Travel and Business Expenses Policy (Travel Policy) and that Freddie Mac wasted monies by paying for an apartment used by the SVP for several days each week. We found no facts to substantiate either allegation.

Our requests for documents in connection with this inquiry led Freddie Mac to review its reimbursements to the SVP for his commuting expenses. Freddie Mac determined that the SVP, not the corporation, paid for his regular commuting expenses from his home to Freddie Mac headquarters. From time to time, the SVP changed his normal commute because of business exigencies and

he considered those expenses to be business expenses for which he sought reimbursement totaling more than \$8,000, which his manager approved. Although Freddie Mac's Travel Policy requires employees to refund overpayments (such as duplicate payments and credits for refunds) to Freddie Mac, it does not specifically direct an employee to repay reimbursements received by the employee for travel expenses not authorized by the Travel Policy. Where an employee has been reimbursed for expenses not permitted under the Travel Policy, the policy directs the employee to report the reimbursed amount as income on his or her personal tax return.

Freddie Mac advised us that it reported the improperly reimbursed commuting expenses totaling \$8,111.21 as imputed income to the SVP and that it would not cover any additional tax liability for this imputed income. Freddie Mac also informed us that it intended to clarify its Travel Policy and to provide additional training to assist administrative staff in distinguishing between business travel and commuting expenses.

A Freddie Mac official explained to us that Freddie Mac will not seek reimbursement from the SVP for the \$8,111.21 he received for these expenses. According to that official, Freddie Mac determined that the SVP acted in good faith when he sought reimbursement for travel expenses driven by a business component because those expenses were outside of his normal commuting expenses. FHFA's Division of Conservatorship considered this to be a reasonable determination.

We do not question the determination made by Freddie Mac, which FHFA affirmed, that the SVP acted in good faith when he submitted his reimbursement request. However, he was paid for expenses that were not eligible for reimbursement under the Travel Policy. Freddie Mac's existing

Travel Policy requires employees to refund any overpayments to Freddie Mac, even where the employee acted in good faith. As Freddie Mac clarifies its Travel Policy, we suggested in our management advisory that it require employees to refund all improperly reimbursed expenses, consonant with its obligations as an entity in conservatorship. In addition, we suggested that training on the clarified Travel Policy be provided to all employees who travel and to managers responsible for approving travel-related reimbursements, not just administrative staff.

In a written management response to this report, FHFA stated that it would provide our management advisory to Freddie Mac. (See OIG, [Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018](#) (OIG-2019-002, March 11, 2019)).

## Supervision of the Regulated Entities

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, DER is responsible for supervision of the Enterprises and DBR is responsible for supervision of the FHLBanks.

During this reporting period, we conducted two compliance reviews in connection with FHFA's supervision of its regulated entities.

## Compliance Review of the Content and Communication of FHFA's Reports of Examination to the Enterprises' Boards of Directors

FHFA sends an annual report of examination (ROE) to each regulated entity. The purpose of an ROE is to communicate to the board of directors (board) of each entity the cumulative results of FHFA's supervisory activities conducted during the annual examination cycle, supervisory concerns, and the composite and component ratings assigned in accordance with FHFA's rating system. The boards can meet their oversight responsibilities only when they are informed in a timely manner of all deficient, unsafe, or unsound practices giving rise to supervisory concerns and findings.

In two 2016 evaluation reports, we found multiple deficiencies both in the content of the ROEs issued by DER and in how the ROEs were communicated to the Enterprises' boards. We made six recommendations in those reports. The Agency agreed with one recommendation and partially agreed with three others.

In a compliance review completed this period, we tested whether the Agency complied with those portions of two recommendations concerning ROE content and communication with which it agreed, in the 2018 ROEs. In response to the 2016 evaluation reports, FHFA represented that it would:

- Adopt a standard ROE template and instructions for completing the template, and stated that the instructions would establish baseline elements that must be included in each ROE.
- Amend its internal guidance to provide that each Enterprise's final ROE should be addressed to the respective

board; each ROE should be issued and presented within established timeframes; the board, or a committee thereof, should confirm review of the ROE on a signature page appended to the ROE; and the examiners-in-charge (EICs) should request responses to ROEs from the Enterprise boards, with documentation of approval of such responses.

Regarding the first recommendation, we found that DER adopted a standard ROE template and issued instructions for completing the template, which established the baseline elements that must be included in each ROE. Both of the 2018 ROEs included the mandatory sections in the template and followed the instructions for use of the template.

Regarding the second recommendation, we found that DER amended its internal guidance and generally complied with the guidance regarding ROE issuance deadline and presentation to the boards. For one Enterprise, the ROE was issued and presented within the established timeframe; for the other Enterprise, the ROE was issued and presented one month later than its established timeline because of a change in the EIC as the ROE was being prepared. We also found that the boards responded in writing to the ROEs and confirmed their receipt and review of the ROEs within the established timeline. (See OIG, [\*Compliance Review of the Content and Communication of the Federal Housing Finance Agency's Reports of Examination to the Enterprises' Boards of Directors\*](#) (COM-2019-001, January 3, 2019)).

### **Compliance Review of FHFA Assessments of MRA Remediation Plans Submitted by the Enterprises**

When DER conducts supervisory activities,

it may identify concerns or deficiencies occurring at an Enterprise. A Matter Requiring Attention (MRA) represents the Agency's most serious supervisory concern. When DER issues an MRA to an Enterprise, that Enterprise must submit a proposed remediation plan to DER. DER's guidance requires DER examiners to conduct an independent analysis or assessment of each proposed remediation plan to determine whether that plan is sufficient to address the MRA and to document that analysis in DER's supervisory record-keeping system.

In a July 2016 evaluation report, we found that DER examiners did not consistently conduct and document independent assessments of a random sample of 18 Enterprise MRA remediation plans. We also found that DER examiners did not consistently and timely store their independent assessments of proposed remediation plans in DER's supervisory record-keeping system. FHFA accepted our recommendation to address these shortcomings. In June 2017, DER issued revised guidance directing its examiners to perform and document independent assessments of the Enterprises' MRA remediation plans and maintain those assessments in DER's supervisory record-keeping system.

During this reporting period, we assessed DER's compliance with its June 2017 guidance. We reviewed examiner assessments (and workpapers and other documentation) of proposed MRA remediation plans conducted between June 21, 2017, and September 1, 2018. For 30 of the 35 assessments, we found that DER examiners conducted independent assessments (86%). We identified five instances where the examiner assessment reflected that the examiner simply copied (or summarized) portions of the proposed remediation plan or recited the proposed

corrective actions and concluded, without any analysis, that the proposed plan was sufficient. We found that all 35 analysis memoranda (and workpapers and other documentation) were properly maintained in DER's supervisory record-keeping system. (See OIG, [\*Compliance Review of FHFA Assessments of MRA Remediation Plans Submitted by the Enterprises\*](#) (COM-2019-003, February 13, 2019)).

## Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations, and the risk that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews their management largely through its supervisory activities.

During this reporting period, we issued one compliance review in connection with this risk.

### Compliance Review of FHFA's Suspended Counterparty Program

In June 2012, FHFA promulgated a Suspended Counterparty Program (SCP) to augment the regulated entities' counterparty risk management programs and provide them with additional protection from the financial and reputational risks posed by individuals and businesses with a history of engaging in fraudulent conduct. Under the SCP, each regulated entity must refer to FHFA a current or former counterparty or an affiliate that has been convicted of, or sanctioned

administratively for, engaging in mortgage-related fraud or other financial misconduct within the last three years. FHFA's Office of General Counsel (OGC) was tasked with reviewing each referral to determine whether to propose a suspension for the referred counterparty from conducting further business with the regulated entities. FHFA has delegated to its General Counsel the authority to suspend counterparties under the SCP.

In 2017, we assessed OGC's administration of the SCP and identified deficiencies. Specifically, we found that, as of December 31, 2016, OGC had a backlog of 424 referrals, the majority of which had been pending for a year or more. We also found several instances in which actual suspensions deviated from the suspension guidelines with no documented rationale in the record.

In our July 2017 report, we recommended that OGC: (1) develop and implement a review plan containing a timeliness standard in order to eliminate the current backlog of referrals and prevent future backlogs; and (2) document its reasons for any departures from the suspension periods prescribed in the guidelines. FHFA agreed with our recommendations.

OGC notified us, in a memorandum dated January 31, 2018, that, in response to our first recommendation, it had developed timeliness standards for processing referrals. According to OGC, those standards required it to: 1) send referrals to the regulated entities for preliminary review within 30 days of their receipt; and 2) prepare a draft memorandum to the General Counsel recommending whether or not a suspension was warranted within 30 days of its receipt of the regulated entities' responses. OGC also represented that it had cleared 86% of the referrals in the backlog, intended to assign an additional staff member to review referrals, and developed an

information system to increase its ability to monitor SCP deadlines.

In response to our second recommendation, OGC reported that FHFA updated its written guidance: reviewers were required to document, in writing, any departures from the suspension periods specified in the guidelines. We closed both recommendations, based on those representations.

We completed a compliance review during this reporting period to verify implementation of the agreed-upon corrective actions. We found that OGC abandoned the two timeliness standards identified in its January 31, 2018, memorandum and that neither had been implemented.

OGC claimed that it adopted an unwritten process to prioritize the processing of aged referrals in its inventory, based on when the terms of the convictions or administrative sanctions will expire, and that it considered this process to be a “timeliness standard.” While OGC’s unwritten prioritization process may provide a reasonable means for prioritizing referrals, it does not ensure that referrals are disposed of on a timely basis, nor does it prevent future backlogs. In contrast, the timeliness standards OGC never implemented and has now abandoned would have prevented future backlogs because they established timelines for completing specific tasks associated with the disposition of all SCP referrals.

In December 2018, OGC reported to us that it eliminated the remaining backlog. We noted that OGC’s lack of attention to the referrals created that backlog, and that the recommendations in our 2017 report were designed to mitigate the risk of future backlogs. For that reason, we reopened the first recommendation.

We did not identify any suspensions issued after January 2018 that departed from the Agency’s suspension guidelines. Accordingly, there was no record on which to test OGC’s compliance with our second recommendation. In its management response, FHFA stated that OGC is currently deploying new resources to assist in ongoing SCP reviews and it would determine, by July 31, 2019, whether additional timeliness standards are necessary to manage existing and incoming SCP referrals. (See OIG, [\*Compliance Review of FHFA’s Suspended Counterparty Program\*](#) (COM-2019-002, January 25, 2019)).

## Information Technology Security

During the reporting period, we issued three audit reports regarding IT security and compliance with the **Federal Information Security Modernization Act of 2014 (FISMA)**. FISMA requires agencies, including FHFA, to develop, document, and implement agency-wide programs to provide information security for the information and information systems that support the operations and assets of the agency, and to periodically test those assets.

### External Penetration Test of FHFA’s Network and Systems During 2018

To support our ongoing oversight of FHFA’s implementation of FISMA, we completed an audit during this period to determine whether FHFA’s security controls were effective to protect its network and systems against external threats.

We found that FHFA’s security controls successfully prevented us from gaining unauthorized access to its systems via the internet, wireless access points, or phishing email. Through a vulnerability scan of the Internet Protocol addresses registered to

FHFA, we identified two medium severity vulnerabilities related to an outdated encryption protocol and web cookies; however, we were not able to exploit these vulnerabilities to gain unauthorized access to FHFA's systems. Upon receiving our vulnerability scan reports, FHFA management reported that a plan was underway to replace systems with an outdated encryption protocol and FHFA took action to address the web cookie vulnerability. We also performed a test that revealed FHFA employees were susceptible to email phishing.

FHFA agreed with our three recommendations. We considered the Agency's reportedly completed and planned corrective actions responsive to those recommendations. (See OIG, [\*External Penetration Test of FHFA's Network and Systems During 2018\*](#) (AUD-2019-003, February 11, 2019)).

### **Statutory Audit: FHFA's and OIG's Information Security Programs**

We completed two audits, conducted in accordance with FISMA, that assessed the existing security programs at FHFA and OIG. (See OIG, [\*Performance Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2018\*](#) (AUD-2019-001, October 24, 2018), and [\*Performance Audit of the Federal Housing Finance Agency, Office of Inspector General's Information Security Program, Fiscal Year 2018\*](#) (AUD-2019-002, October 24, 2018)).

OIG contracted with an independent public accounting firm, Kearney & Company, P.C., to perform separate FISMA audits of FHFA's and OIG's information security programs because FHFA and OIG maintain separate IT infrastructures. The objectives of these audits were to evaluate the effectiveness of FHFA's and OIG's information security program

and practices and respond to the Department of Homeland Security's *FY 2018 Inspector General (IG) Federal Information Security Modernization Act of 2014 Reporting Metrics*, dated May 24, 2018. Because information in these reports could be used to circumvent FHFA's and OIG's internal controls, the complete text of the reports has not been released publicly.

## Reports and Recommendations

Below are the 19 audits, evaluations, compliance reviews, management alerts and advisories, administrative inquiries, special report, and white papers published during the period. A list of the recommendations made in these OIG reports is provided in Appendix B. See [OIG's website](#) for a list of all reports issued by OIG since its inception.

| Report   | Date              |
|--|-------------------|
| <a href="#">Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018 (AUD-2019-001)</a>   | October 24, 2018  |
| <a href="#">Performance Audit of the Federal Housing Finance Agency, Office of Inspector General's Information Security Program Fiscal Year 2018 (AUD-2019-002)</a>                      | October 24, 2018  |
| <a href="#">Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director (OIG-2019-001)</a>  | November 29, 2018 |
| <a href="#">Compliance Review of the Content and Communication of the Federal Housing Finance Agency's Reports of Examination to the Enterprises' Boards of Directors (COM-2019-001)</a> | January 3, 2019   |
| <a href="#">Compliance Review of FHFA's Suspended Counterparty Program (COM-2019-002)</a>  | January 25, 2019  |
| <a href="#">External Penetration Test of FHFA's Network and Systems During 2018 (AUD-2019-003)</a>   | February 11, 2019 |
| <a href="#">Compliance Review of FHFA Assessments of MRA Remediation Plans Submitted by the Enterprises (COM-2019-003)</a>   | February 13, 2019 |
| <a href="#">Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018 (OIG-2019-002)</a>              | March 11, 2019    |
| <a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017 (AUD-2019-004)</a>               | March 13, 2019    |
| <a href="#">FHFA's Controls over Post-Employment Restrictions and Financial Disclosure Requirements for Offboarded Employees Were Followed During 2016 and 2017 (AUD-2019-005)</a>       | March 13, 2019    |

| Report   | Date           |
|--|----------------|
| <a href="#"><u>Summary of Administrative Inquiry: The Office of Inspector General’s Review of Alleged Badgering and Harassment of FHFA Employees that Play an Important Role in the Agency’s Internal Control Framework (OIG-2019-003)</u></a> | March 13, 2019 |
| <a href="#"><u>FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees (OIG-2019-004)</u></a>  | March 26, 2019 |
| <a href="#"><u>FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-001)</u></a>   | March 26, 2019 |
| <a href="#"><u>FHFA’s Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-002)</u></a>  | March 26, 2019 |
| <a href="#"><u>Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017 (AUD-2019-006)</u></a>                 | March 27, 2019 |
| <a href="#"><u>Subprime Mortgages: Enterprise and FHFA Reporting (WPR-2019-001)</u></a>  | March 27, 2019 |
| <a href="#"><u>An Overview of Enterprise Debt-to-Income Ratios (WPR-2019-002)</u></a>  | March 27, 2019 |
| <a href="#"><u>Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a \$2.13 Billion, Seven-Year Project (OIG-2019-005)</u></a>  | March 29, 2019 |
| <a href="#"><u>The Enterprises’ Use of Recourse as a Credit Enhancement Under Their Charters (WPR-2019-003)</u></a>  | March 29, 2019 |

# Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority that is exercised by its Office of Investigations (OI). OI conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse in connection with the programs and operations of the Agency and the regulated entities. OI is staffed with special agents (SAs), investigative counsel, analysts, and attorney advisors who work in field offices across the nation. OI has offices located within several federal judicial districts that lead the nation in reported instances of mortgage fraud: the Southern District of Florida; the Northern District of Illinois; the District of New Jersey; and the Central District of California.



OI is the only federal law enforcement organization that specializes in deterring and detecting fraud perpetrated against the Enterprises. OI's focus on fraud committed against the Enterprises is essential to the well-being of the secondary mortgage market. Collectively, Fannie Mae and Freddie Mac hold more than \$5 trillion worth of mortgages on their balance sheets. Each year the Enterprises acquire millions of mortgages worth several hundreds of billions of dollars. The potential for fraud in these circumstances is significant.

## **Criminal and Civil Investigations and Results**

Working with federal and state prosecutors, OI SAs conduct investigations that may result in criminal charges against individuals and entities that engaged in illegal conduct. The imposition of such charges may result in plea agreements or trials, incarceration, and criminal monetary penalties, including orders of restitution and forfeiture.

This reporting period, as a result of OI investigations, 41 defendants were sentenced to an aggregate total of 81 years in prison and criminal and civil monetary penalties over \$1.4 billion.

Investigations undertaken by OIG SAs sometimes result in the filing of civil complaints that may end in settlements or judgments, as well as the imposition of fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs.

| <b>Figure 1. OI Monetary Results</b> |                                |                             |
|--------------------------------------|--------------------------------|-----------------------------|
| October 1, 2018 – March 31, 2019     |                                |                             |
|                                      | <b>Criminal Investigations</b> | <b>Civil Investigations</b> |
| Fines*                               | \$82,352,372                   | \$0                         |
| Settlements                          | \$0                            | \$1,251,600,000             |
| Restitutions                         | \$110,659,243                  | \$0                         |
| <b>Total</b>                         | <b>\$193,011,615</b>           | <b>\$1,251,600,000</b>      |

\*Fines include criminal fines, forfeiture and special assessments, and civil fines imposed by federal court.

| <b>Figure 2. Reports, Referrals, Prosecutions, and Convictions</b>   |    |
|--|----|
| October 1, 2018 – March 31, 2019*  |    |
| Investigative Reports**  | 26 |
| Criminal Referrals to DOJ  | 74 |
| Criminal Referrals to State and Local Prosecuting Authorities  | 15 |
| Indictments and Informations during the Reporting Period that Resulted from Referral to Prosecutors during Prior Reporting Periods | 31 |
| Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals  | 19 |
| Trials   | 4  |
| Defendants Tried   | 4  |
| Convictions/Pleas  | 30 |
| Sentencings  | 41 |

\*All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court. This includes both public and non-public documents (sealed). All referrals made to DOJ and to state prosecutors are captured within each investigative file; these actions are tabulated via a statistical report run in OIG's case management system. Criminal referrals on this chart include both individuals and entities.

\*\*For the purposes of this SAR, an investigative report is defined as the Report of Investigation finalized at the conclusion of the investigation, prior to case closure.

To date, OI's criminal investigations have resulted in over \$5 billion in orders of restitution, forfeiture, seizures, fines, and special assessments. Our civil investigations have resulted in over \$63 billion in civil settlements, recoveries, and fines.

## Mortgage Fraud Investigations

The most effective and efficient investigations of mortgage fraud schemes require specialized knowledge of the mortgage industry to investigate, solve, and support prosecutors and fact-finders. The time and effort required to investigate an allegation of mortgage fraud varies with the scheme by which it is perpetrated.

For example, loan origination and **short sale** schemes may be labor intensive due to the extensive review and analysis of mortgage loan files and bank documents necessary to spot indications of fraud. Fraudulent loan modification schemes sometimes involve hundreds of victims. Those investigations require comprehensive document and financial records reviews, victim interviews, and the tracking of illicitly received fees charged by the perpetrators. In condominium or builder bailout scheme investigations, SAs carefully examine mortgage and bank documents to determine fraudulent patterns of behavior, including undisclosed incentives to attract buyers to purchase and invest in properties. In these investigations, SAs locate and interview investors, learn the nuances of how the scheme is organized, and determine how the perpetrators financially benefitted.

In **bankruptcy** or **foreclosure-delay** schemes, SAs cull documents received by the Enterprises and the FHLBanks, calculate scheme losses, and coordinate with the United States Trustee's offices as needed to determine if fraudulent paperwork has been submitted to initiate a bankruptcy. Other investigations conducted by SAs include **real estate owned (REO)** and adverse possession schemes. Each of these schemes presents with unique circumstances and requires many hours of intense document analysis, potential victim and witness interviews, and other investigative techniques.

## Multifamily Fraud Investigations

Multifamily investigations involve fraud schemes related to loans purchased by the Enterprises to finance properties that have five or more residential units, primarily rental apartment communities. OI has recently created a team at HQ to support our multifamily investigations around the country.

### Special Assistant U.S. Attorney Program

To increase OIG's effectiveness, four OIG attorney-investigators have been appointed as Special Assistant U.S. Attorneys in several judicial districts throughout the country. They have been assigned criminal matters arising from OI's investigations in the districts where they have been appointed and have pursued these investigations to conviction and sentencing.

To maximize criminal and civil law enforcement, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the U.S. Department of Housing and Urban Development OIG (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.



Seized property from a multi-state deed fraud scheme, purchased with proceeds from the fraud.



Seized property from a multi-state deed fraud scheme, purchased with proceeds from the fraud.

## Hotline

Since its inception, OIG has maintained a hotline to provide easy access for individuals to report tips, complaints, or referrals (TCRs) of alleged violations of criminal and civil laws in connection with programs and operations of the Agency. OI is responsible for conducting a preliminary review of all hotline TCRs. OIG's hotline is staffed by a third-party vendor to protect the anonymity of the callers and to provide easy access for reporting. Every TCR, whether made by telephone directly to the hotline, email, website, or in person, is sent to the hotline and logged by the hotline. Attorneys in OI conduct a preliminary assessment to determine whether further review and investigation is appropriate. During this reporting period, 579 discrete contacts to the hotline were made involving TCRs, and 128 separate TCRs were logged by the hotline.

During the semiannual reporting period, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 50 individuals, the conviction of 30 individuals,

and 41 sentencing, as well as court-ordered forfeiture and restitution awards.

Figures 1 and 2 (see above) summarize the results obtained during this reporting period from our investigative efforts.

Below, we highlight some of our civil and criminal cases, grouped by category. A summary of publicly-reportable investigative outcomes for each criminal category during this reporting period and a description of each category may be found at Appendices C-J.

## Investigations: Civil Cases

During the semiannual reporting period, OI continued to participate in RMBS investigations and other civil investigations by working closely with U.S. Attorneys' offices to investigate allegations of fraud committed by financial institutions and individuals.

### Residential Mortgage-Backed Securities Investigations

#### HSBC Agrees to Pay \$765 Million in Connection with its Sale of RMBS, Colorado

On October 9, 2018, the United States announced that HSBC will pay \$765 million to settle claims related to its packaging, securitization, issuance, marketing, and sale of RMBS between 2005 and 2007. During that period, federally-insured financial institutions and others suffered major losses from investing in RMBS issued and underwritten by HSBC. Under the settlement, HSBC will pay the \$765 million as a civil penalty pursuant to the **Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)**.

The United States alleged that HSBC had a due diligence process for reviewing the loans

HSBC planned to securitize as RMBS, but as early as 2005, an HSBC credit risk manager expressed concerns with HSBC's due diligence process. HSBC nevertheless touted its due diligence process to potential investors. It told investors that when it purchased pools of subprime loans, HSBC would review at least 25% of the loans in the pool for credit and compliance. It told investors that it selected 20% of the loan pool as an "adverse sample" based on "a proprietary model, which will risk-rank the mortgage loans in the pool." But on some loan pools, HSBC's RMBS trading desk influenced how the risk management group selected loans for the adverse portion of the sample, and as a result, the sample was not based on its model. HSBC also told investors that it selected another 5% of the loan pool as a "random sample." But in some instances, HSBC used a random sample that was less than 5% of the pool, or used a sample that was not random at all.

To review the loans HSBC did select for review, HSBC used due diligence vendors, and HSBC saw the results of the vendors' reviews of the loans before the deals were issued. Between January 2006 and June 2007, HSBC's primary due diligence vendor flagged over 7,400 loans as having low grades—more than one out of every four loans the vendor reviewed for HSBC during that time. When HSBC employees saw loans with low grades, they sometimes "waived" those loans through or recategorized the grades to make the due diligence "percentages look better." They also expressed views about the deals they were issuing. For example, in 2007, an HSBC trader said, in reference to an RMBS that HSBC was about to issue, "it will suck."

For a loan pool HSBC purchased in 2006, HSBC learned of what employees referred to as an "abnormally large" and "alarmingly" high number of payment defaults. HSBC had purchased the loan pool but had not

securitized it yet. Early payment defaults (EPDs)—when a borrower fails to make one of the first few payments on a mortgage—could be, in the words of HSBC's co-head of RMBS, "an indicator of higher expected loss on the pool." In an internal email, HSBC's head of risk management for RMBS wrote that the high EPD rate could be a sign of systemic problems with the pool. Others within HSBC's risk management group expressed concern that the pool "may be contaminated" and asked whether "they should hold back on the securitization launch until there is further clarity on all the issues. . . ." The next day, the head of HSBC's whole loan trading risk management group stated that he was "comfortable that we need not make any further disclosures to investors. . . ." HSBC issued the securitization a few days later. A later post-close quality control review indicated that loans that "appear to have fraud or misrep" went into the securitization. HSBC went on to buy and securitize more loans from the same originator, even after the head of HSBC's due diligence team concluded that the originator had offered "bad collateral."

After purchasing certain loan pools, HSBC ordered a quality control review but did not wait for the final results before issuing the securitization. On two pools, HSBC received preliminary quality control results before the issuance of the securitization that, according to the quality control vendor, showed indications of fraud in the origination of particular loans, but included those loans in the RMBS anyway. On a loan pool in 2007, HSBC performed post-close due diligence on a sample of loans from that pool. HSBC's due diligence vendor graded approximately 30% of the loans in the post-close due diligence sample as having the lowest grade. HSBC went on to securitize loans from that same pool without any further credit or compliance review before securitization.

These are allegations only, which HSBC disputes and does not admit.

### **Nomura Agrees to Pay \$480 Million in Civil Penalties for Misleading Investors in Sale of Residential Mortgage-Backed Securities, New York**

On October 16, 2018, the United States announced it had reached an agreement with Nomura Holding America Inc. and several of its affiliates (“Nomura”), which will pay a \$480 million penalty to resolve federal civil claims that Nomura misled investors in connection with the marketing, sale, and issuance of RMBS between 2006 and 2007. Nomura’s investors, which included university endowments, retirement funds and federally insured financial institutions, suffered significant losses due to Nomura’s misconduct.

The settlement stems from allegations that Nomura knowingly securitized defective mortgage loans in its RMBS and misled investors regarding the quality and characteristics of those loans. For example, the United States alleged that, in presentations regarding its RMBS program, Nomura claimed that its due diligence process was “extensive,” “disciplined,” and “carefully developed.” Nomura also told investors that it only worked with “hand-picked industry leading” due diligence vendors, and that, because of its superior standards and due diligence processes, “Nomura’s loan performance should surpass industry standards.” In reality, Nomura knew, based on its due diligence, that thousands of loans that it securitized in its RMBS did not comply with applicable underwriting guidelines or were supported by inflated and potentially fraudulent appraisals. Nomura concealed these deficiencies from investors, securitizing many of these defective loans as “favors” to loan originators—including, for example, loans that one originator openly described

to Nomura as “dogsh[\*]t.” As stated by a member of Nomura’s RMBS due diligence group: “There is no such thing as a bad loan... just a bad price.”

Nomura also knew that a significant number of loans that it securitized in its RMBS had not gone through Nomura’s stated due diligence process, and, more broadly, that its process had been compromised. Nomura’s head of RMBS due diligence (in the context of proposed changes to Nomura’s loan-by-loan buying program) stated that Nomura was “turning into the lemming of the mortgage business,” “following the herd,” and compromising its standards “to comply with the masses in p[u]rsuit of volume.” Additionally, a member of Nomura’s RMBS group’s origination sales team, in an email to the entire RMBS group, remarked that “advertising will be a great career when all these loans finally blow up... (I will be selling vacuum cleaners door to door when the market goes by the way).”

***“The actions of Nomura resulted in significant losses to investors, including Fannie Mae and Freddie Mac, which purchased Nomura Residential Mortgage-Backed Securities backed by defective loans. We are proud to have partnered with the U.S. Attorney’s Office for the Eastern District of New York on this matter.”***

*– Jennifer Byrne*

*Associate Inspector General*

Despite this knowledge, Nomura failed to address the weaknesses in its due diligence processes, and continued to do business with originators that, according to its own due diligence personnel, were “extremely dysfunctional,” had “systemic” underwriting issues, and employed “questionable” origination practices. Indeed, Nomura’s

securitization of defective loans in the subject deals—despite numerous red flags—reflected a conscious decision by senior Nomura personnel to compete for market share in a highly competitive RMBS market.

Likewise, despite knowing that its due diligence was ineffective and did not remove large numbers of defective loans from its RMBS, in mid-2006, Nomura announced new, “more liberal” underwriting guidelines for its loan-by-loan purchase program. Although Nomura’s head of RMBS due diligence warned that Nomura had already “loosened guidelines in so many areas” and that it was “at risk of giving away the proverbial store,” the prevailing view, as characterized by Nomura’s RMBS trading desk, was that Nomura’s “box [was] too restrictive.” Nomura’s new guidelines allowed for the purchase of loans that Nomura’s due diligence personnel previously described as “sheer lunacy.”

The actions of Nomura resulted in significant losses to investors, including Fannie Mae and Freddie Mac, which purchased Nomura RMBS backed by defective loans.

These are allegations only, which Nomura disputes, and there has been no trial or adjudication or judicial finding of any issue of fact or law.

The settlement was the result of a multi-year investigation pursuant to FIRREA.

### **United States Sues UBS to Recover Civil Penalties for Fraud in the Sale of RMBS, New York**

On November 8, 2018, the United States filed a civil complaint against UBS AG and several of its U.S. affiliates (together, UBS), alleging that UBS defrauded investors throughout the United States and the world in connection

with its sale of RMBS in 2006-2007.

The complaint alleges that UBS’s actions violated the FIRREA, based on mail fraud, wire fraud, bank fraud, and other misconduct. FIRREA authorizes the Attorney General to seek civil penalties up to the amount of the gain derived from the violation, or the losses suffered by persons other than the violator resulting from the violation.

As detailed in the complaint, from 2006 through 2007, UBS misled investors about the quality of billions of dollars in subprime and Alt-A mortgage loans backing 40 RMBS deals. Specifically, in publicly filed offering documents, UBS knowingly misrepresented key characteristics of the loans, thereby concealing the fact that the loans were much riskier and much more likely to default than UBS represented. In the end, the 40 RMBS, sustained substantial losses. The Enterprises were investors with some of the loans in this scheme.

These are allegations only, which UBS disputes and does not admit.

### **Other Civil Investigations**

#### **Settlement of Civil Fraud Claims against Law Firm Rosicki, Rosicki & Associates, P.C., and two Affiliates for Inflating Foreclosure- and Eviction-Related Expenses, New York**

On December 4, 2018, the United States Attorney’s Office for the Southern District of New York announced the settlement of a civil fraud lawsuit against New York law firm Rosicki, Rosicki & Associates, P.C. (Rosicki) and its wholly owned affiliates, Enterprise Process Service, Inc. (Enterprise) and Paramount Land, Inc. (Paramount). The settlement resolves the United States’ claims, asserted under the False Claims Act, alleging that Rosicki used its affiliates, Enterprise

and Paramount, to systematically generate false and inflated bills for foreclosure-related and eviction-related expenses, and caused those expenses to be submitted to and paid for by Fannie Mae. As part of the settlement, Rosicki, Enterprise, and Paramount admitted and accepted responsibility for their conduct and must pay \$4.6 million to the United States. The settlement also requires Rosicki to implement a compliance program with regular reporting over the next five years, and to publicly disclose the nature of its affiliation with Enterprise and Paramount.

Rosicki's main practice area is mortgage foreclosures. The two founding Rosicki partners also own a number of affiliated entities, including Enterprise, a service-of-process company, and Paramount, a title search company. Fannie Mae approved Rosicki to perform legal work in connection with foreclosures on residential properties for which Fannie Mae owned the mortgage loans. Fannie Mae's Servicing Guide required, among other things, that all foreclosure costs and expenses be "actual, reasonable, and necessary," and that foreclosure law firms "must make every effort to reduce foreclosure-related costs and expenses in a manner that is consistent with all applicable laws." Rosicki understood those requirements and represented at various times that the firm was complying with them.

In fact, as Rosicki, Enterprise, and Paramount have admitted, from 2009 through 2018, on certain invoices for service of process (i.e., delivery or attempted delivery of legal papers) in connection with foreclosures or evictions, Enterprise added additional charges to the costs charged by independent contractors and otherwise took actions that increased costs and expenses. Similarly, on certain invoices for foreclosure searches and title continuations, Paramount added additional charges to the costs charged by independent

contractors and otherwise took actions that increased costs and expenses. Rosicki submitted those costs and expenses for payment, with the understanding that Fannie Mae would reimburse for them.

### **\$2 Million Settlement Agreement in Condominium Scheme, Illinois**

On December 31, 2018, a \$2,000,000 Settlement Agreement was entered into between the United States of America and Richard Borkowski, Edward Borkowski, and RJE Investments, LLC (RJE).

RJE was a member of 13th & State, a now dissolved limited liability company that facilitated the construction of Vision on State, a condominium building in Illinois. Vision on State had approximately 250 residential units that were offered for sale beginning in approximately November 2004. Many of the mortgages resulting from 13th & State's sale of condominium units in Vision on State were originated and/or held by federally insured financial institutions and mortgage lenders, as well as sold to the Enterprises.

The United States contends that, from August 1, 2007, through February 2009, Richard Borkowski and Edward Borkowski, as members of RJE, were integral in the builder-bailout mortgage fraud scheme that operated through 13th & State with respect to the sale of the Vision on State units.

For example, the Vision on State development broke ground in November 2004. Initially, 13th & State sold Vision on State's condominium units at market prices through licensed real estate brokers. However, when 13th & State struggled to sell the condominium units at market prices during the real estate downturn of 2007, the 13th & State members, including the Borkowskis, agreed to inflate the price of the condominium

units and use unlicensed recruiters to find **straw buyers**.

The Borkowskis were aware that the straw buyers were investors who did not intend to reside in the condominium units and that recruiters promised them incentives such as providing their down payments, paying the first two years of homeowners' association dues, and that they would find renters for the properties. In turn, the recruiters received sizeable commissions for facilitating the closings.

The incentives and the commissions to recruiters then were subsumed into the inflated sales price of the condominiums but were not stated in the real estate contracts, nor were they listed on the settlement statements for those closings. The banks providing the mortgages with respect to the condominium units thus were not informed that the mortgages they originated were inflated by the undisclosed payments to the straw buyer and the recruiters, nor that the source of the down payment was actually the seller, 13th & State. Likewise, the Enterprises were not informed that the mortgages secured by the condominium units that they were purchasing from lenders had been inflated to include the undisclosed incentive and commission payments.

The Borkowskis, along with others, created this scheme and pressured others to carry it out, causing false entries to be made on settlement statements. The Borkowskis did this in order to receive a return on their investment and/or avoid greater financial liability for debts owed in connection with the Vision on State development.

The straw buyers ultimately defaulted on these fraudulent loans, causing losses of more than \$13 million to the Enterprises and other lenders. Specifically, Freddie Mac and

Fannie Mae suffered losses of \$1,991,578 and \$192,000, respectively.

This Settlement Agreement is neither an admission of liability by RJE or the Borkowskis, nor a concession by the United States that its claims are not well founded.

## **Investigations: Criminal Cases**

Below we highlight some OIG criminal investigations during this semiannual reporting period in a number of different categories. These investigations resulted in criminal charges, trial convictions, plea agreements, sentencing, and court-ordered fines, forfeitures, and restitution judgments.

### **Condo Conversion and Builder Bailout Schemes**

#### **Sentencings of Attorney and Real Estate Developer in Builder Bailout Scheme, Illinois**

Between October 2018 and February 2019, Robert Lattas and Warren Barr, III, were sentenced to 63 months and 87 months in prison, respectively, and ordered to pay over \$12.8 million in restitution, jointly and severally, for their roles in a builder bailout scheme. Barr was additionally sentenced to two years of supervised release. Previously, Lattas pled guilty to bank fraud and Barr pled guilty to making false statements to a financial institution.

According to court documents, Barr, a real estate developer, conspired with Lattas, an attorney, and others to defraud mortgage lenders and financial institutions by obtaining over \$22 million dollars in fraudulent mortgages for the purchase of dozens of condominium units in Illinois. Barr coordinated undisclosed payments, which included wire transfers to a co-defendant

and other recruiters; these payments were used as the buyers' down payments. To cover the costs of paying the straw buyers' down payments and other incentives, the co-conspirators inflated the sales prices of the properties and facilitated the production of false loan documents and settlement statements signed by Lattas that concealed material facts from the lenders.

Losses to the Enterprises associated with this scheme are greater than \$2 million; overall scheme losses are approximately \$13 million.

### **Real Estate Broker and Business Partner Convicted of Bank Fraud in Mortgage Scheme, Florida**

On March 4, 2019, Geo Geovanni and Elizabeth Longerbone were sentenced to 37 months and one day in prison, respectively, and three years of supervised release, for their roles in a mortgage fraud scheme. Additionally, the defendants were ordered to pay \$736,791 in restitution, and \$56,948 in forfeiture, jointly and severally. Longerbone was additionally ordered to serve six months home detention. Previously, Geovanni was found guilty after a federal jury trial on charges of conspiracy to commit bank fraud and bank fraud and Longerbone pled guilty to conspiracy to commit bank fraud.

According to testimony and evidence presented at trial, Geovanni was a real estate broker who owned his own brokerage firm based in Orlando, Florida. Geovanni sold condominium units to buyers at The Landing, located in Altamonte Springs, Florida. Geovanni engaged in a conspiracy with Longerbone to conceal from mortgage lenders sales incentives that he provided to the buyers. These undisclosed incentives included making the buyers' down payments and paying kickbacks after closing. As a result, Geovanni's actions caused losses of

approximately \$761,150 to the Enterprises and lenders when the mortgages involved in the fraudulent transactions went into foreclosure.

### **Loan Origination Schemes**

#### **Sentencings of Cook County Judge and Loan Officer convicted in Mortgage Fraud Scheme, Illinois**

During December 2018 – February 2019, Jessica Arong O'Brien and Maria Bartko were sentenced to 366 days and seven months in prison, respectively, along with two years of supervised release for their roles in a mortgage fraud scheme. Bartko was additionally ordered to pay \$1,335,500 in restitution, \$660,000 of which is jointly and severally with O'Brien. Previously, O'Brien was convicted at trial on charges of bank fraud and mail fraud affecting a financial institution and Bartko pled guilty to mail fraud affecting a financial institution.

The jury found that O'Brien caused lenders to issue and refinance approximately \$1.4 million in mortgage and commercial loans by making false representations and concealing material facts in documents submitted to the lenders. Trial evidence demonstrated that O'Brien used the fraudulently obtained mortgage loan proceeds to purchase an investment property in Chicago, then refinanced the mortgage on the property and another investment property using fictitious documentation. Additionally, O'Brien obtained a commercial line of credit to maintain the properties, before selling them to a loan officer—co-defendant Maria Bartko—and a straw buyer whom O'Brien knew would be fraudulently qualified to obtain mortgage loans.

Evidence at trial revealed that O'Brien engaged in the alleged wrongful activities and, while carrying them out, was employed

as a Special Assistant Attorney General for the Illinois Department of Revenue, owned a real estate company, and was employed with Bartko as a loan officer at a mortgage company.

Losses to victims, including the Enterprises, are over \$1.3 million.

### **Two Indicted for Targeting Elderly in Reverse Mortgage Loan Origination Fraud, New Jersey**

On February 8, 2019, Rafael Peralta and Philip Puccio, Jr., were indicted on charges of conspiracy to commit bank fraud and bank fraud for their respective roles in a reverse mortgage scheme that took advantage of several elderly homeowners.

According to court documents, Peralta and Puccio, home repair contractors, allegedly conspired to fraudulently obtain Home Equity Conversion Mortgage (HECM) – also known as reverse mortgage – proceeds by submitting inflated and fraudulent documentation to various victim banks to influence their decision to approve and fund HECMs. Peralta and Puccio recruited a conspirator to prepare inflated real estate appraisals that falsely increased the value of the properties securing the HECMs, thereby influencing each lender’s decision to provide loans in amounts greater than what would otherwise be available.

Peralta and Puccio also allegedly caused the submission of false and fraudulent loan documents that actively concealed the disbursement of loan proceeds to Peralta, Puccio, and entities they owned and controlled. The diverted loan proceeds were deposited into bank accounts controlled by Peralta and Puccio and used for their personal benefit and to further the conspiracy.

Lenders issued over \$2.3 million in reverse mortgage proceeds because of this scheme. The Enterprises, as investors, suffered losses.

### **Loan Modification and Property Disposition Schemes**

#### **Sentencing in \$4 Million Mortgage Fraud Scheme, California**

On February 13, 2019, Prakashumar Bhakta was sentenced to seven years and eight months in prison and ordered to pay \$256,494 in restitution, jointly and severally, for operating a mortgage fraud scheme that preyed on homeowners facing foreclosure. Bhakta previously pled guilty on the first date of his scheduled trial to grand theft, conspiracy, filing false documents, and identity theft.

The fraud scheme stretched through San Diego, Riverside, San Bernardino, and Los Angeles counties. Bhakta and co-defendants convinced distressed homeowners that they could provide legal assistance to help save their home. They persuaded victims to pay them \$3,500 to start; then \$1,000 monthly; and separate fees for filing legal documents. Co-defendants filed and recorded numerous fraudulent documents, including false bankruptcies and false court filings. The scheme defrauded lenders and other owners of their rightful possession of the residential properties. Meanwhile, the co-defendants took thousands of dollars from homeowner victims to perform fraudulent services. Bhakta, who was an integral part of the scheme, falsely notarized numerous fractional interest grant deeds without the presence of the person whose signature was being notarized. Bhakta previously pled guilty to conspiracy, grand theft, and filing false or forged documents.

The scheme defrauded lenders and other owners of the mortgages of their rightful

possession of the residential properties. Meanwhile, the homeowners gave the defendants over \$1 million to perform services that were fraudulent and deprived them of the opportunity to save their homes, in some instances leaving them homeless. At least 150 homeowners were victimized in this scheme, with losses to the lenders and the Enterprises estimated at over \$4 million.

### **Sentencing of Participant in \$20 Million Mortgage Fraud Scheme, California**

On December 3, 2018, Jane Matsuba-Garcia was sentenced to 57 months in prison, years of supervised release, and ordered to pay \$12,208,992 in restitution, jointly and severally, for her role in a mortgage fraud scheme. Also on this date, Matsuba-Garcia's forfeiture order was finalized, ordering her to pay \$200,446. She previously pled guilty to charges of conspiracy to commit wire fraud, making false statements to federally insured institutions, and identity theft.

According to her plea agreement, Matsuba-Garcia and others engaged in a scheme to defraud financially distressed homeowners by offering to prevent foreclosure on their properties through short sales. Instead, the conspirators rented out the properties to third parties, did not pay the mortgages on the properties, and submitted false and fraudulent documents to mortgage lenders and **servicers** to delay foreclosure. The evidence further established that the conspirators obtained mortgages in the names of stolen identities. The defendants also used additional tactics, including filing bankruptcy in the names of distressed homeowners without their knowledge and fabricating liens on the distressed properties, the evidence showed.

Losses to the Enterprises and lenders are nearly \$19 million.

### **Loan Modification Operators Sentenced in Foreclosure Prevention Fraud Scheme, Maryland**

On December 3, 2018, Michelle Jordan and her husband, Michael Welsh, were sentenced to 57 months and 46 months in federal prison, respectively, followed by three years of supervised release, for their roles in a foreclosure prevention fraud scheme. Co-conspirator Carrol Jackson was sentenced to time served, followed by nine months of home detention and three years of supervised release. Each defendant was ordered to pay \$491,036 in restitution, jointly and severally. A federal jury previously convicted the three co-conspirators on charges of conspiracy and wire fraud.

According to the evidence presented at their eight-day trial, Jordan and Welsh were chief executive officer and president, respectively, of MJ Loan Auditor Group, LLC (MJLAG), a limited liability company registered and doing business in Maryland. Jackson was the owner and manager of CJ Maxx Group LLC, a limited liability company doing business in Maryland, Virginia, and Georgia.

Trial evidence proved that Jordan and Welsh falsely told victim homeowners that, for a fee, MJLAG could help these homeowners modify their mortgage loans and prevent foreclosure of their homes. Jordan and Welsh falsely represented that MJLAG could help the homeowners get "free and clear" title to their homes, with no debt or liens against the property, and that MJLAG could obtain money from the homeowners' lenders, typically by suing the lenders. Jordan and Welsh told homeowners that they needed to purchase one or more "audits" of the homeowners' mortgage loans in order to uncover fraud and alleged illegal acts committed by the lenders, and that these "audits" could be used as evidence in lawsuits

against the lenders and in negotiating for a loan modification.

Witnesses testified that as part of the scheme, Jordan and Welsh had homeowners sign a “contract fee agreement” setting out what fees would be charged for the “audit.” The contract fee agreement contained the seal of the National Association of Mortgage Underwriters (NAMU), even though the defendants and their companies had no current affiliation with NAMU. Jordan advised clients to submit baseless complaints about their lender to state and federal agencies, file frivolous lawsuits in local courts, and to stop paying their mortgages. Jordan further advised MJLAG clients whose homes already were in foreclosure proceedings to file for bankruptcy in order to delay the foreclosure proceedings and as part of the process to prevent foreclosure of the clients’ homes. Jordan assisted MJLAG clients in filing for bankruptcy, by preparing bankruptcy petitions and related documents and court filings.

The evidence proved that Jordan and Welsh paid Jackson to prepare fraudulent documents purporting to be “Forensic Audit Reports” and “Real Estate Securitization Audits” relating to loans for properties owned by MJLAG clients. The victim homeowners paid money to MJLAG with the expectation of receiving assistance with modifying their mortgage loans and preventing foreclosure of their homes.

At least 20 of the properties involved in this investigation were financed through Enterprise-backed loans.

### **Short Sale Schemes**

#### **Guilty Pleas of Real Estate Broker and Employee in a Buy-and-Bail Scheme, Michigan**

On October 10, 2018, William Elias and Kimberly Doren pled guilty bank fraud for their roles in a short sale fraud scheme. Elias additionally pled guilty to money laundering.

William Elias, owner and operator of Elias Realty, Kimberly Doren, his employee, and another co-conspirator, devised a buy-and-bail short sale fraud scheme. According to Elias’s plea agreement, through extensive advertising, the co-conspirators contacted struggling homeowners and promised to help sell their homes, eliminate their debt, and buy new homes. To accomplish this, the co-conspirators instructed clients to obtain a mortgage to purchase a second home. The clients’ mortgage applications falsely inflated the values of the first homes and misrepresented that the clients intended to keep their existing homes as rental properties. The homes were worth significantly less than stated in the mortgage applications, and the homeowners had no intention of renting their homes; rather, they intended to sell them by short sale.

Once the second homes were purchased, the co-conspirators would assist the clients with short selling their original homes. Many homeowners were permitted to conduct short sales resulting in financial loss to lenders and investors. In some instances, when the short sales could not be completed, the mortgages were foreclosed.

According to Doren’s plea agreement, she used her business entity, KLD Consulting, to act as a straw buyer on behalf of Elias and his business entity Michigan Property Ventures, the true buyer. In fact, Doren knew that Elias did not want to disclose to the lenders that he was the purchaser of the properties listed with his company, nor did he want the lenders to know that Elias Realty was negotiating the short sale on behalf of its own owner.

The scheme resulted in more than \$5 million in losses to the Enterprises.

### **Guilty Plea in \$6 Million Fraud Scheme, New Jersey**

On December 18, 2018, Mehdi Kassai pled guilty to charges of bank fraud, wire fraud, and money laundering for his role in a scheme to defraud financial institutions and others of more than \$6 million.

According to documents filed in this case and statements made in court, Kassai and others fraudulently induced mortgage lenders to participate in “short sale” transactions. Kassai admitted that he used false documents and straw buyers, caused cosmetic damage to properties to lower their apparent value, and restricted the ability of others to bid and buy those properties. This allowed Kassai to gain control of properties through the short sale process for substantially less than the properties were actually worth. Kassai then sold many of those properties to third parties at a substantial profit.

The Enterprises, as investors with some of the properties involved in this scheme, suffered losses.

### **Multifamily Schemes**

#### **VP of Real Estate Management Company and Managing Director of Commercial Real Estate Financing Firm Plead Guilty in Multi-Million Dollar Mortgage Fraud Scheme, New York**

Between December 2018 and March 2019, Kevin Morgan and Patrick Ogiony were charged by information and pled guilty to conspiracy to commit bank fraud.

According to court documents, Kevin Morgan and Ogiony, along with co-defendants

Todd Morgan, Frank Giacobbe, and others, conspired to defraud financial institutions and the Enterprises. Kevin Morgan was employed as a Vice President at Morgan Management, LLC, a real estate management company that managed more than 200 multi-family properties. Todd Morgan also was employed by Morgan Management as a Project Manager. Kevin and Todd Morgan worked with Frank Giacobbe, who owned and operated Aurora Capital Advisors, LLC, a mortgage brokerage company, and Patrick Ogiony, an Aurora employee, to secure financing for properties managed by Morgan Management or certain principals of Morgan Management.

Kevin Morgan, Ogiony, and others created and provided false information to lenders, the Enterprises, and servicers, including reporting inflated revenues and reduced expenses for the properties managed by Morgan Management. This resulted in the financial institutions issuing loans for larger amounts than they would have authorized had they been provided with truthful information.

The co-defendants misled the financial institutions regarding the occupancy of properties. For example, Kevin Morgan and Ogiony conspired to provide false rent rolls to lenders and appraisers on a variety of dates, overstating either the number of renters in a property and/or the rent paid by occupants; conspired to provide false and inflated income statements for the properties; and worked with others to deceive inspectors into believing that unoccupied apartments were, in fact, occupied.

In one such instance, Kevin Morgan, Ogiony, and others provided false information to Berkadia Commercial Mortgage LLC and Freddie Mac, in connection with Rochester Village Apartments at Park Place, a multi-family residential community owned by certain Morgan Management principals. The

false information included inflated income derived from storage unit rentals, parking revenue, and apartment leases. Additionally, during the construction phase, apartments were reported to lenders as “occupied” prior to the issuance of the certificates of occupancy. At another property, radon testing procedures were falsified to secure financing.

In addition, Kevin Morgan, Ogiony, and others made misrepresentations to the lending institutions to conceal the unauthorized use of loan proceeds by Morgan Management and its principals. Loan funding was used to maintain or improve other properties managed by Morgan Management, and to satisfy debts associated with other properties managed by Morgan Management. For example, the defendants included a fictitious \$2.5 million debt in a loan application, purportedly owed to a Morgan Management controlled entity and created a fabricated payoff letter for that debt to increase the amount of the loan in connection with a property known as Autumn Ridge.

Charges are pending against Giacobbe and Todd Morgan. The investigation revealed fraud in at least 23 loans issued for over \$500 million, secured by at least 21 different properties.

Loss calculations are ongoing. Some loans involved in this scheme were purchased or securitized by the Enterprises.

## **Property Management and REO Schemes**

### **Ex-Fannie Mae Employee Found Guilty and Fannie Mae REO Broker Pled Guilty in Multi-Million Dollar Scheme Involving Property Listings and Approval of Below-Market Sales, California**

On February 13, 2019, Shirene Hernandez was found guilty at trial on charges of wire

fraud and deprivation of honest services involving a scheme where she received bribes and kickbacks from brokers in exchange for Fannie Mae real estate listings and for approving the discounted sales of Fannie Mae-owned properties.

According to the evidence presented at a five-day trial, Hernandez was a sales representative at Fannie Mae. As part of its operations, Fannie Mae acquires properties through foreclosures and other methods, and then it manages and sells those properties for Fannie Mae’s benefit. Since at least 2012, Fannie Mae’s profits have gone to the U.S. Treasury for the benefit of U.S. taxpayers.

As a sales representative, Hernandez assigned Fannie Mae-owned properties to real estate brokers and approved sales of the properties based on offers the brokers submitted. In violation of Fannie Mae rules and federal law, Hernandez approved sales of Fannie Mae-owned properties at discounted prices to herself and to the brokers who paid her kickbacks. She also received bribes—mostly in cash payments—in return for listing opportunities and commissions that brokers earned on real estate sales.

Hernandez also assigned listings to family members who earned nearly \$2 million in commissions in less than three years. Other brokers who paid kickbacks earned millions more. For her part in the scheme, Hernandez received more than \$1 million in benefits, including the cash kickbacks that she received, and the value of a property that she obtained with kickback money.

As part of the scheme, Hernandez purchased a Fannie Mae-owned property in Sonoma, California, that she was responsible for selling, and she rejected higher, market-priced offers in favor of her own below-market price. Hernandez purchased the

Sonoma property through intermediaries and affiliates that she controlled, selling it first to a company affiliated with a broker who was bribing her, then directing the broker to transfer the property to her sister-in-law, who paid for the property with a duffel bag filled with \$286,450 in cash from Hernandez – far below the market price. The Sonoma property was rented out and Hernandez received the rent proceeds.

In a related case, on January 7, 2019, Peter Michno, a broker, was charged and pled guilty to conspiracy to commit wire fraud involving deprivation of honest services for his role in this scheme.

According to the plea agreement, Michno was a Fannie Mae-approved REO broker entitled to receive a commission from the sale of REO properties as compensation for his services. Michno was not authorized to purchase Fannie Mae REO properties for himself or for his friends, relatives, and associates or permitted to pay referral fees, bribes, or kickbacks to Fannie Mae employees.

Michno paid co-conspirators, employed by Fannie Mae, cash bribes and kickbacks in exchange for the assignment of listings and the approval of below-market sales of Fannie Mae REO properties to him and his affiliates. Michno then transferred some of these properties to his co-conspirators as a kickback for the performance of their official duties.

### **Licensed Real Estate Broker Sentenced for Fannie Mae Fraud, Florida**

On December 6, 2018, Hollie Dustin was sentenced to six months in prison, three years of supervised release, and ordered to pay \$34,001 in both restitution and forfeiture for committing wire fraud against Fannie Mae. Dustin previously pled guilty to wire fraud.

According to court documents, Dustin, a licensed real estate broker, owned Home Choice Real Estate (HCRE), a company that contracted with Fannie Mae to manage and perform preservation services on various Fannie Mae foreclosed properties. As part of a master listing agreement with Fannie Mae, Dustin’s company was prohibited from using any vendors that she controlled to perform preservation services on Fannie Mae properties. Dustin fraudulently used ProPreserve, a company that she controlled, to perform preservation services on the properties without Fannie Mae’s knowledge or consent. She then submitted approximately 550 fraudulent ProPreserve invoices for HCRE, which Fannie Mae paid.

Dustin also created inflated ProPreserve invoices for work already performed by other vendors, then submitted those false invoices to Fannie Mae for payment, and used interstate wires to fraudulently submit the invoices to Fannie Mae.

### **Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes**

#### **11 Individuals and 3 Businesses Charged in National Foreclosure Relief Scheme, Ohio**

On March 6, 2019, 11 people from across the country and three businesses were indicted for their roles in a scheme to defraud distressed homeowners by falsely representing that they could help the victims save their homes.

According to the 26-count indictment, the co-conspirators took advantage of homeowners’ desperation to save their homes and used money from homeowner victims to personally enrich themselves. It is alleged that co-conspirators were involved in a multilevel marketing scheme, which promised affiliates commissions by recruiting distressed homeowners to companies they

controlled, including MVP Home Solutions, LLC, Bolden Pinnacle Group Corp., and Silverstein & Wolf Corp. They used multiple ways to recruit affiliates, including conference calls and direct mailings. For example, some co-conspirators hosted weekly conference calls where participants from across the country dialed in to hear details of the scheme and share sales strategies. During the calls, co-conspirators encouraged affiliates to recruit homeowners to their companies on the promise of easy money.

Some co-conspirators also allegedly promoted, organized, and attended conferences in which affiliates came to hear details of the scheme in person. For example, some co-conspirators organized and participated in a national conference in Columbus, Ohio, in April 2015 in which they provided “deep impact training” and techniques for affiliates to convince homeowners to enroll in Bolden Pinnacle Group Corp. and Silverstein & Wolf Corp. programs.

Affiliates were encouraged to be aggressive in recruiting homeowners. Affiliates used online databases and court records to identify vulnerable, financially distressed homeowners who had recently received notice of foreclosure on their home.

According to the indictment, some co-conspirators mailed more than 22,000 postcards promising that they could “stop foreclosure” or “stop the sheriff sale” for a fixed fee. Co-conspirators also reached out to homeowners using Craigslist ads, websites, emails, and social media platforms.

On the promise of reducing or eliminating mortgage obligations in exchange for a fee, initial recruiters would collect payments from homeowners and refer the victims to the co-conspirator’s companies.

Among other things, the referral programs promised to negotiate with mortgage lenders on the homeowners’ behalf for the purchase of the mortgage notes at a discount, negotiate the sale of their home and release of their mortgage loans through a short sale and/or deed in lieu of foreclosure sale, stop an imminent foreclosure sale, remove the mortgage lien via a tender offer, and achieve short sale prices at a fraction of the value of the outstanding lien/note.

Further, co-conspirators represented that they had “proprietary” methods or “legal tactics” to help homeowners stall or completely avoid foreclosure. In actuality, the indictment says co-conspirators persuaded homeowners to file chapter 13 bankruptcies in order to delay foreclosure actions.

Co-conspirators allegedly filed skeletal bankruptcy petitions that they called “pump fakes.” These petitions intentionally failed to disclose the co-conspirators as preparers and named the homeowners as filing pro se. Any relief from foreclosure delay was temporary until the bankruptcy court dismissed the proceeding.

In 2014 alone, one co-conspirator allegedly prepared and filed petitions for 30 homeowners without their knowledge.

The Enterprises suffered losses because of this scheme.

### **Sentencing in \$2 Million Mortgage Fraud Scheme, California**

On January 7, 2019, Arnold Millman was sentenced to 40 months in prison and ordered to pay \$126,786, for his role in a large-scale mortgage fraud scheme. Millman previously pled guilty to grand theft, filing false or forged documents in a public office, conspiracy, and identity theft.

According to court documents, Millman, along with others, operated “SafeCare,” a fictitious insurance company that purported to sell, for **upfront fees**, low-interest real estate loans. These fictional loans were offered with no down-payment requirement and were primarily marketed to Latino and African American families. The co-conspirators filed false bankruptcy and other court documents using fictitious names to delay foreclosure and eviction actions and instructed victims to deposit fees into a bank account they controlled. To further victimize their clients, one co-conspirator posed as an attorney and charged the victims additional fees for legal services. The victims did not receive real estate loans and, in fact, many ultimately lost their homes and life savings. Scheme losses to date are approximately \$2 million to lenders and victims. Potential losses to the Enterprises are \$1 million.

### **Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions**

#### **Couple and Business Owner Pled Guilty for Roles in Freddie Mac Foreclosure Fraud Scheme, Massachusetts**

On February 11, 2019, Joanne Murray and James Murray were charged and pled guilty to conspiracy to commit mail fraud, aggravated identity theft, and tax evasion for their role in a scheme to defraud Freddie Mac.

According to court documents, Joanne Murray worked at a real estate brokerage, which managed hundreds of foreclosed properties owned by Freddie Mac. The Murrays and others agreed to submit fraudulent “reimbursements” by the brokerage to Freddie Mac for James Murray’s company, amounting to nearly \$1.4 million in repair, improvement, and maintenance projects. After Freddie Mac paid the

purported reimbursements, the brokerage paid James Murray approximately 90% of those amounts and retained an approximate 10% skim. Joanne Murray ensured that James Murray’s company would win these projects by submitting fraudulent bids to Freddie Mac by purported competitors. To avoid detection by Freddie Mac, Joanne Murray submitted inflated bids in a friend’s name, without his knowledge, knowing that James Murray’s company would submit a lower bid and be awarded the project. The Murrays also agreed to submit similar fraudulent requests for reimbursement of minor cleaning projects for James’ relative, amounting to approximately \$68,960, in exchange for the brokerage’s retention of approximately 10% of the relative’s payments.

In a related case, on February 5, 2019, Talal Soffan pled guilty to making false statements to a federally insured financial institution, wire fraud, aggravated identity theft, conspiracy, and bank fraud for his role in this scheme. Soffan admitted to, amongst other crimes, conspiring with others to submit real and fictitious bids for repair work contracts in exchange for a kickback to the brokerage firm.

Freddie Mac paid reimbursement expenses in excess of \$1.3 million because of this scheme. Additional loss calculations are ongoing.

#### **Pastor and Co-Conspirators Indicted for Conspiracy to Defraud FHLBank Affordable Housing Program, South Carolina**

On December 12, 2018, Tommy Quick, Isaac Quick, and John Bagwell, Jr. were charged by indictment with conspiracy for their roles in a scheme to defraud the Affordable Housing Program (AHP) through the FHLBank of Atlanta and its member bank, Community First Bank.

According to an indictment, Tommy Quick, Pastor of Promised Land Church, created Promised Land Community Development Corporation (PLCDC), a non-profit organization that repaired homes through grants received from the South Carolina State Housing Finance and Development Authority (SC Housing), FHLBank of Atlanta, and Spartanburg County Community Development (SCCD). Tommy Quick, acting as PLCDC's Executive Director, and Isaac Quick, PLCDC's Program Manager, allegedly submitted false statements and certifications containing inflated construction costs to the FHLBank of Atlanta and SC Housing.

Allegedly, the Quicks conspired with Bagwell, a general contractor, who agreed, for a fee, to falsely sign FHLBank of Atlanta and SC Housing certifications claiming his company, Construction Development Associates (CDA), was the contractor utilized by PLCDC to perform the grant work. After the Quicks submitted the fraudulent invoices, PLCDC paid CDA. Bagwell then allegedly transferred the money paid to CDA, less his fee, to Total Action Against Poverty (TAAP), an entity controlled by the Quicks. The Quicks then used TAAP to hire subcontractors to perform the work.

Additionally, the Quicks allegedly solicited kickbacks from Bagwell in exchange for steering SCCD grant projects to CDA.

The Quicks' profit from this scheme was the difference of the submitted versus actual costs of the grant work, as well as from sponsor fees paid by the FHLBank of Atlanta and SC Housing to administer the grants.

Currently, there are 59 properties identified in this scheme with losses estimated at approximately \$300,000 and exposure of over \$700,000.

## Law Enforcement Outreach

OIG develops public-private partnerships where appropriate. During this reporting period, OIG delivered 36 fraud awareness briefings to different audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; Federal Deposit Insurance Corporation (FDIC)-OIG; IRS-CI; the Financial Crimes Enforcement Network; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae and Freddie Mac to combat fraud.

During this reporting period, OIG worked with additional local and state partners, including the Miami-Dade Police Department; the New York State Department of Financial Services; the Bergen County (NJ) Prosecutor's Office; the Prince George's County (MD) Police Department; the Montgomery County (MD) Police Department; the Liberty County (GA) Sheriff's Office; the Georgia Bureau of Investigation; the Maryland Department of Labor, Licensing, and Regulation; the Massachusetts State Police; the Springfield (MA) Police Department; the California DOJ Fraud and Special Prosecutions Section; the Stanislas County (CA) District Attorney's Office; the Orange County (CA) District Attorney's Office; the Orange County (CA) Sheriff's Department; the Kern County (CA) District Attorney's Office; the Los Angeles Police Department; the Los Angeles Sheriff's Department; and the Illinois State Police.

## Investigations: Administrative Actions

In addition to the criminal cases brought as a result of OIG investigations, OI’s investigative work regularly results in administrative referrals to other entities for action. For example, a criminal case of mortgage fraud that results in a guilty plea by a licensed real estate agent, attorney, or certified public accountant for participation in a bank fraud scheme might result in a referral by OIG to a state licensing body for disciplinary actions. When a real estate professional is prosecuted for mortgage fraud, that prosecution may cause OIG to refer the matter to another federal agency for possible suspension or debarment of that individual from participation in federal programs. During this reporting period, OIG made 68 such referrals for suspension and debarment.

## Suspended Counterparty Referrals

FHFA has adopted a Suspended Counterparty Program under which it issues “suspension orders directing the regulated entities to cease or refrain” from doing business with counterparties (and their affiliates) that were previously found to have “engaged in covered misconduct.” Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, “covered misconduct” includes convictions or administrative sanctions within the past three years based on fraud or similar misconduct in connection with the mortgage business. FHFA issues suspension orders if the misconduct “is of a type that would be likely to cause significant financial or reputational harm to a regulated entity

or otherwise threaten the safe and sound operation of a regulated entity.”<sup>3</sup>

During this reporting period, OIG made 17 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program and additional suspension/debarment referrals to other agencies, summarized in Figure 3.

**Figure 3. Administrative Actions**  
October 1, 2018 – March 31, 2019

|  |    |
|--|----|
| Suspension/Debarment Referrals to Other Agencies | 68 |
| Suspended Counterparty Program Referrals to FHFA | 17 |

<sup>3</sup> FHFA Suspended Counterparty Program, 12 C.F.R. pt. 1227 (2018). Accessed: March 27, 2019, at FHFA Suspended Counterparty Program, [12 C.F.R. pt. 1227](#).

# OIG's Regulatory Activities and Outreach

## Regulatory Activities

Pursuant to the Inspector General Act, OIG assesses whether proposed legislation and regulations related to FHFA are efficient, economical, legal, or susceptible to fraud and abuse. OIG is currently assessing proposed, interim final, and final rules published by FHFA in the *Federal Register*. Any recommendations or comments upon those rules will be made after these assessments conclude.

## Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system, and the financial crisis has shown that financial distress at the Enterprises can threaten the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy, and decisions were made to invest \$191.5 billion in the Enterprises. The continuing significant role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during this reporting period include the following:

### Congress

To fulfill its mission, OIG works closely with Congress and is committed to keeping it fully apprised of our oversight of FHFA. During this semiannual reporting period, OIG provided information and briefings to congressional staff on OIG work.

### Hotline

The OIG hotline serves as a vehicle through which Agency, Enterprise, and FHLBank employees and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. For more information about OIG's hotline, including OIG contact information, see <https://www.fhfa.ig.gov/ReportFraud>.

### Close Coordination with Other Oversight Organizations

During the reporting period, we maintained active participation in coordinated oversight activities:

- ***FBI Cybercrimes Task Force.***  
The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG has assigned two special agents to it. This multiagency task force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help prosecute cybercriminals and stop cyberattacks

made against institutions maintaining PII, trade secrets, and financial data.

- **CIGIE.** OIG actively participates in several CIGIE committees and working groups:
  - The Inspection and Evaluation Committee
  - The Investigations Committee
  - The Audit Committee
- **Council of Inspectors General on Financial Oversight (CIGFO).** CIGFO was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** to oversee the Financial Stability Oversight Council (FSOC), which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The FHFA IG is a statutory member of CIGFO, along with the IGs of Treasury, FDIC, the Securities and Exchange Commission, and others. By statute, CIGFO may convene working groups to evaluate the effectiveness and internal operations of FSOC. OIG has participated, and continues to participate, in different CIGFO working groups.

Working Group, the Las Vegas Consumer Fraud Protection Fair, the Los Angeles Real Estate Fraud Task Force, the Association of Certified Fraud Examiners, the Cook County Regional Organized Crime Task Force, the South Florida Organized Fraud Intelligence Meeting, the Northern California Real Estate Fraud Task Force, the Treasure Coast Economic Crimes Working Group, the City of Hyattsville (MD) Senior Group, the New Jersey Security Association, the Chicago Bank Fraud Investigators Group, the Dane County (WI) Financial Crimes Investigators Group, the El Dorado Task Force South, students from the University of Chicago, state and county regulators, and bank investigators.

### Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak with officials at the FHLBanks and the Enterprises to benefit from their insights. We also make presentations to academic and industry groups. Recent presentations include: the U.S. Trustee Program (nationwide), the Palm Beach County (FL) Economic Crimes

# Appendices

## Appendix A: Information Required by the Inspector General Act

Section 5(a) of the Inspector General Act, as amended, provides that OIG shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing our

activities during the immediately preceding six-month periods ending March 31 and September 30.

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

| Source/Requirement  |                   |
|---|-------------------|
| Section 5(a)(1) – A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.  | 8-12,<br>17-33    |
| Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.   | 17-33,<br>63-121  |
| Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.  | 63-121            |
| Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.   | 34-53,<br>122-125 |
| Section 5(a)(5) – A summary of each report made to the Director of FHFA about information or assistance requested and unreasonably refused or not provided.   | 62                |
| Section 5(a)(6) – A listing, subdivided according to subject matter, of each audit and evaluation report issued by OIG during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use. | 17-33,<br>59      |
| Section 5(a)(7) – A summary of each particularly significant report.  | 12-14,<br>17-33   |
| Section 5(a)(8) – Statistical tables showing the total number of audit and evaluation reports and the total dollar value of questioned and unsupported costs.   | 3, 59             |

| Source/Requirement  | Pages  |
|---|--------|
| Section 5(a)(9) – Statistical tables showing the total number of audit and evaluation reports and the dollar value of recommendations that funds be put to better use by management.  | 3, 59  |
| Section 5(a)(10)(A) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.   | 59     |
| Section 5(a)(10)(B) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency.   | 59     |
| Section 5(a)(10)(C) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.  | 63-121 |
| Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.   | 59     |
| Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.  | 59-60  |
| Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.  | 60     |
| Section 5(a)(14) – An appendix containing the results of any peer review conducted by another IG; or the date of the last peer review if no peer review was conducted during the reporting period.  | 60     |
| Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.   | 60     |
| Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.  | 60     |
| Section 5(a)(17) – Statistical tables showing, for the reporting period, the total number of: investigative reports issued; persons referred to DOJ for criminal prosecution; persons referred to State and local prosecuting authorities for criminal prosecution; and indictments and criminal informations that resulted from any prior referral to prosecuting authorities. | 35     |

| Source/Requirement  | Pages |
|---|-------|
| Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).   | 35    |
| Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.                               | 60-62 |
| Section 5(a)(20) – A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences FHFA imposed to hold that official accountable.  | 61    |
| Section 5(a)(21) – A detailed description of any attempt by FHFA to interfere with the independence of OIG, including with budget constraints designed to limit OIG’s capabilities, and incidents where FHFA has resisted or objected to OIG oversight activities or restricted or significantly delayed access to information. | 62    |
| Section 5(a)(22)(A) – Detailed descriptions of the particular circumstances of each evaluation and audit conducted by OIG that is closed and was not disclosed to the public.   | 62    |
| Section 5(a)(22)(B) – Detailed descriptions of the particular circumstances of each investigation conducted by OIG involving a senior Government employee that is closed and was not disclosed to the public.   | 60-62 |

## **Reports Identifying Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management Issued During the Semiannual Period**

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its audit reports, inspection reports, and evaluation reports issued during the semiannual period and include for each report, where applicable, questioned costs, unsupported costs, and funds to be put to better use. Section 5(a)(8) and section 5(a)(9), respectively, require OIG to publish statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. Oversight conducted by OIG is not limited to reports issuing from inspections, audits, and evaluations. OIG also issues other reports in furtherance of its mission, including management alerts and advisories, special reports, and compliance reviews. During this reporting period, the reports that OIG issued did not include recommendations with dollar values of questioned costs, unsupported costs, or funds to be put to better use by management.

## **Audit and Evaluation Reports with No Management Decision**

Section 5(a)(10)(A) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. There were no audit, inspection, evaluation, or other oversight reports issued before October 1, 2018, that await a management decision.

## **No Agency Response Within 60 Days**

Section 5(a)(10)(B) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency. There were no audit, inspection, evaluation, or other oversight reports issued before October 1, 2018, for which OIG did not receive a response within 60 days of providing the report to the Agency for comment.

## **Significant Revised Management Decisions**

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended March 31, 2019, there were no significant revised management decisions by FHFA.

## **Significant Management Decisions with Which the Inspector General Disagrees**

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in disagreement. During the six-month reporting period ended March 31, 2019, there was one significant management decision by FHFA with which the Inspector General disagreed.

OIG disagrees with FHFA's decision regarding one recommendation in our evaluation report titled *FHFA's Approval of Senior Executive Succession Planning*

at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-001). FHFA declined to accept our recommendation that the Agency re-assess the appropriateness of the annual compensation award of \$3.6 million to Fannie's Mae President. OIG closed the recommendation as rejected.

## **Federal Financial Management Improvement Act of 1996**

Section 5(a)(13) of the Inspector General Act, as amended, requires that OIG report information concerning instances of and reasons for failures to meet any intermediate target dates from remediation plans designed to remedy findings that the Agency's financial management systems do not comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. For the six-month reporting period ended March 31, 2019, this reporting provision did not apply to the Agency or OIG.

HERA requires the Government Accountability Office (GAO) to audit FHFA financial statements. In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2018 and 2017 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be material weaknesses or significant deficiencies. GAO also reported that its test for compliance with provisions of applicable laws, regulations, contracts, and grant agreements disclosed no reportable instances of noncompliance.

## **Peer Reviews**

Sections 5(a)(14), (15), and (16) of the Inspector General Act, as amended, require that OIG provide information relevant to

the semiannual period on any peer reviews of OIG, unimplemented recommendations from any peer reviews of OIG, and any peer reviews conducted by OIG.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission Office of Inspector General (NRC-OIG) and reported on July 12, 2017. NRC-OIG issued an Opinion Letter and a Letter of Observations detailing the results of its review. In the Opinion Letter, the NRC-OIG reported that OIG's system of internal safeguards and management procedures for our investigative function is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. In the Letter of Observations, NRC-OIG recognized OIG for employing five "best practices" in its investigative operations.

The most recent peer review of our audit organization was conducted by the Pension Benefit Guaranty Corporation Office of Inspector General and reported on February 28, 2017. OIG received a final System Review Report with a rating of pass, which is the highest rating that can be issued to an audit organization.

Copies of both peer review reports are on OIG's website under [Current Peer Review Reports](#). During this semiannual reporting period, OIG did not complete any peer reviews of another Office of Inspector General.

## **Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation**

In accordance with the Inspector General Act, as amended, Sections 5(a)(19), (20), (22)(B), and 5(e), OIG is required to report certain information regarding (1) investigations

involving senior government employees (SGEs) or (2) government officials found to have engaged in whistleblower retaliation. In this section, we include the results of OIG administrative inquiries as appropriate.

Sections 5(a)(19) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation it conducted involving an SGE when allegations of misconduct were substantiated.

As discussed earlier in the section titled “*OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period*,” OIG completed an administrative inquiry this period into allegations of misconduct by the then-FHFA Director. OIG determined that the information we obtained during our administrative inquiry provided a sufficient basis to substantiate one allegation of misconduct by the then-FHFA Director and to give rise to a second finding of misconduct. We found that (1) the then-FHFA Director misused his official position to attempt to obtain a personal benefit and (2) he was not candid with OIG. We issued the report to the President for such action as he deemed appropriate, and to the Office of Government Ethics and to our Congressional oversight committees. See OIG, [\*Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director\*](#) (OIG-2019-001, November 29, 2018).

Sections 5(a)(20) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on any instance of whistleblower retaliation by an official found to have engaged in retaliation. OIG does not

have any reportable information during the applicable time frame.

Sections 5(a)(22)(B) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation involving an SGE that is closed and was not disclosed to the public.

During this reporting period, OIG completed an administrative inquiry of an anonymous hotline complaint alleging that an FHFA SGE engaged in nepotism and favoritism during an internal hiring process, and that the individual selected by the SGE lacked necessary qualifications for the position. OIG did not find evidence sufficient to substantiate these allegations, and the matter was closed.

During this reporting period, OIG completed an administrative inquiry of hotline complaints alleging that another FHFA SGE circumvented or manipulated federal hiring and compensation practices and provided jobs to at least two individuals without proper regard to their qualifications. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

During the prior reporting period, OIG completed an administrative inquiry of hotline complaints alleging, among other things, that two FHFA SGEs falsified their time and attendance records. (See OIG, [\*Summary of Administrative Inquiry: The Office of Inspector General’s Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials\*](#) (OIG-2018-005, September 24, 2018)). FHFA concluded that both SGEs discussed in the OIG summary violated FHFA’s policies regarding leave and work schedules, and their conduct warranted discipline. During this reporting period, FHFA

imposed disciplinary measures for both SGEs. As part of the same matter, OIG conducted an inquiry into alleged misuse of an FHFA vehicle by another SGE. OIG did not find sufficient evidence to substantiate that allegation; therefore, the matter was closed.

OIG's oversight activities or restricting or significantly delaying access to information. OIG does not have any reportable information during the applicable time frame.

During this reporting period, OIG completed an administrative inquiry into an allegation of wasteful spending by an SGE on an office budget. OIG did not find sufficient evidence to substantiate the claims and closed the inquiry.

## **Audits or Evaluations that Were Closed and Not Disclosed**

Sections 5(a)(22)(A) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—the particular circumstances of each inspection, evaluation, and audit OIG conducted that is closed and was not disclosed to the public. During this reporting period, OIG did not close any inspection, evaluation, or audit without disclosing the existence of the report to the public. OIG issued several reports during this reporting period that contained information that is privileged, confidential, protected under the Privacy Act, or could be used to circumvent FHFA's internal controls, and, accordingly, OIG has not publicly disclosed such contents. We have provided unredacted reports to our congressional oversight committees.

## **Interference with Independence**

Section 5(a)(21) of the Inspector General Act, as amended, requires that OIG report any attempt by FHFA to interfere with the independence of the office, including through budget constraints designed to limit OIG's capabilities and resistance or objection to

## Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote economy, efficiency, and effectiveness in the Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Since OIG began operations in October 2010, we have made more than 425 recommendations. Figure 4 (see page 64) summarizes OIG's

recommendations still pending, made, or reopened during this reporting period. Figure 5 (see page 87) summarizes OIG's outstanding unimplemented recommendations. Figure 6 (see page 88) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Figure 7 (see page 107) lists OIG's closed, unimplemented recommendations. Summaries for all reports are available on OIG's website or through the links provided in the accompanying tables. OIG also publishes a Compendium of Open Recommendations on its website.

Figure 4.

## Summary of OIG Recommendations Made, Pending, or Reopened During This Period

| No.                   | Recommendation   | Report Name and Date   | Status  |
|-----------------------|--|--|---|
| <b>AUD-2019-006-1</b> | FHFA should work with Fannie Mae to resolve the high instance (over 10 percent of loans during our review period) of the property valuation method being reported as “unknown” in FHFA’s Mortgage Loan Integrated System.                      | <a href="#">Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017</a><br>(AUD-2019-006, March 27, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-004-1</b> | FHFA should develop and implement written procedures for all offboarding activities, to include procedures for the collection and deactivation of access cards for FHFA facilities and the collection and transfer of Enterprise access cards. | <a href="#">FHFA’s Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br>(AUD-2019-004, March 13, 2019)  | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation  | Report Name and Date   | Status  |
|-----------------------|---|--|---|
| <b>AUD-2019-004-2</b> | FHFA should ensure that PIV cards are collected, and building access is deactivated, for all separated and departed individuals to whom cards were issued. For unaccounted/lost PIV cards, ensure that building access associated with those cards is promptly deactivated. | <a href="#"><u>FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</u></a><br>(AUD-2019-004, March 13, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-004-3</b> | FHFA should implement controls to ensure all departed contractor employees complete applicable offboarding requirements.  | <a href="#"><u>FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</u></a><br>(AUD-2019-004, March 13, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-004-4</b> | FHFA should reinforce, through training and supervision, that offices with offboarding responsibilities ensure offboarding forms are properly completed.  | <a href="#"><u>FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</u></a><br>(AUD-2019-004, March 13, 2019) | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation  | Report Name and Date   | Status  |
|-----------------------|---|--|---|
| <b>AUD-2019-004-5</b> | FHFA should ensure that offboarding documentation is maintained in accordance with FHFA's retention requirement.  | <a href="#"><u>FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</u></a><br>(AUD-2019-004, March 13, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-003-1</b> | FHFA should ensure planned systems replacements meet National Institute of Standards and Technology (NIST) Special Publication 800-52 Revision 1 requirements for encryption. | <a href="#"><u>External Penetration Test of FHFA's Network and Systems During 2018</u></a><br>(AUD-2019-003, February 11, 2019)  | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-003-2</b> | FHFA should emphasize to employees the need to [redacted] in emails and report suspicious emails.   | <a href="#"><u>External Penetration Test of FHFA's Network and Systems During 2018</u></a><br>(AUD-2019-003, February 11, 2019)  | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-003-3</b> | FHFA should continue to perform periodic phishing email tests.  | <a href="#"><u>External Penetration Test of FHFA's Network and Systems During 2018</u></a><br>(AUD-2019-003, February 11, 2019)  | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation  | Report Name and Date   | Status  |
|-----------------------|---|--|---|
| <b>AUD-2019-001-3</b> | Because information in this report could be used to circumvent FHFA’s internal controls, it has not been released publicly. | <a href="#"><u>Performance Audit of the Federal Housing Finance Agency’s Information Security Program Fiscal Year 2018</u></a><br>(AUD-2019-001, October 24, 2018) | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2019-001-4</b> | Because information in this report could be used to circumvent FHFA’s internal controls, it has not been released publicly. | <a href="#"><u>Performance Audit of the Federal Housing Finance Agency’s Information Security Program Fiscal Year 2018</u></a><br>(AUD-2019-001, October 24, 2018) | Recommendation agreed to by FHFA; implementation pending. |

| No.            | Recommendation  | Report Name and Date   | Status   |
|----------------|---|--|--|
| AUD-2018-014-1 | <p>FHFA should reinforce FHFA’s government travel card policies and procedures through periodic reminders to, and training of, FHFA travelers and approving officials, including requirements to ensure:</p> <ul style="list-style-type: none"> <li>• Travel card holders do not pay lodging taxes in states that exempt government issued travel cards from taxes;</li> <li>• Employees submit vouchers within five working days after employees complete their travel, initiate travel only after their travel authorizations are approved, and submit required receipts with travel vouchers;</li> <li>• Employees use their government-issued travel cards for all official travel expenses; and</li> <li>• Employees use travel cards only for official travel.</li> </ul> | <p><a href="#">Audit of FHFA’s Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials</a><br/>(AUD-2018-014, September 25, 2018)</p> | <p>Recommendation agreed to by FHFA; implementation pending.</p> |

| No.                          | Recommendation   | Report Name and Date   | Status   |
|------------------------------|--|--|--|
| <p><b>AUD-2018-013-1</b></p> | <p>FHFA should develop, document, and implement control activities to ensure that (a) only current FHFA employees are receiving transportation benefits, (b) no employee is improperly participating in both transportation benefit programs, (c) FHFA’s Transit Benefits System has a record/certification for each employee who receives a transportation benefit, and (d) SmarTrip® cards are physically controlled. Such control activities include periodic reconciliation of approved transit subsidy recipients in [the] Transit Benefits System to FHFA transit subsidy recipients listed on Washington Metropolitan Area Transit Authority Monthly Activity Reports; periodic reconciliation of approved transit subsidy recipients to active parking permit recipients; and periodic inventory counts of SmarTrip® cards registered to FHFA and undistributed parking permits.</p> | <p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a><br/>(AUD-2018-013, September 25, 2018)</p> | <p>Recommendation agreed to by FHFA; implementation pending.</p> |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>AUD-2018-013-2</b> | FHFA should ensure that FHFA’s Transit Benefits System has accurate and up-to-date records of, and current certifications for, each FHFA employee who receives a transportation benefit.  | <a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)   | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2018-013-3</b> | Should FHFA identify, through these newly implemented controls, any individuals who improperly used transit subsidies to which they were not entitled, FHFA should determine whether to recover the amounts (taking cost/benefit into consideration). | <a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)   | Recommendation agreed to by FHFA; implementation pending. |
| <b>AUD-2018-008-2</b> | FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].  | <a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018) | OIG review pending closure.                               |

| No.   | Recommendation   | Report Name and Date   | Status                             |
|---|--|--|------------------------------------|
| <p><b>AUD-2017-010-2</b></p> <p><b>AUD-2017-011-1</b></p> | <p>FHFA should reinforce through training and supervision of DER personnel, the requirements established by FHFA and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ul style="list-style-type: none"> <li>a. Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011)</li> <li>b. Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010)</li> </ul> | <p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017);</p> <p><a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risk at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)</p> | <p>OIG review pending closure.</p> |

| No.                   | Recommendation  | Report Name and Date   | Status  |
|-----------------------|---|--|---|
| <b>AUD-2017-010-1</b> | FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans. | <a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a><br>(AUD-2017-010, September 27, 2017) | OIG review pending closure.                               |
| <b>AUD-2017-007-1</b> | The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored.   | <a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)  | OIG review pending closure.                               |
| <b>AUD-2017-007-2</b> | The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.  | <a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)  | OIG review pending closure.                               |
| <b>AUD-2017-007-3</b> | The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.   | <a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)  | Recommendation agreed to by FHFA; implementation pending. |

| No.                              | Recommendation  | Report Name and Date  | Status  |
|----------------------------------|---|---|---|
| AUD-2017-007-4                   | The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.  | <a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)  | OIG review pending closure.   |
| AUD-2016-007-2<br>AUD-2016-006-2 | FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans. | <a href="#">FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016) | Recommendation partially agreed to by FHFA; OIG review pending closure. |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>EVL-2019-002-1</b> | FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac’s continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the CEO responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA’s representation that Candidate A will leave Freddie Mac if he is not selected for the CEO position. | <a href="#"><u>FHFA’s Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</u></a> (EVL-2019-002, March 26, 2019) | Recommendation not agreed to by FHFA; closed as rejected. |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>EVL-2019-001-1</b> | FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae’s continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the CEO and President positions, with annual compensation capped at \$600,000 since 2015. | <a href="#">FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a> (EVL-2019-001, March 26, 2019) | Recommendation not agreed to by FHFA; closed as rejected. |
| <b>EVL-2019-001-2</b> | FHFA should establish a process for maintaining and monitoring sensitive conservator requests in the DOC’s Status Tracking and Reporting System.  | <a href="#">FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a> (EVL-2019-001, March 26, 2019) | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation  | Report Name and Date   | Status  |
|-----------------------|---|--|---|
| <b>EVL-2018-004-1</b> | Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommend that FHFA re-evaluate the fraud information it requires from the Enterprises, and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises. | <a href="#"><u>FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility</u></a><br>(EVL-2018-004, September 24, 2018)  | Recommendation agreed to by FHFA; implementation pending. |
| <b>EVL-2018-003-1</b> | FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners' independent assessments of Internal Audit's work and specifies the conditions under which examiner testing is expected.  | <a href="#"><u>FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</u></a><br>(EVL-2018-003, March 28, 2018) | OIG review pending closure.                               |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>EVL-2018-002-2</b> | FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise's Internal Audit function when assessing the adequacy of MRA remediation. | <a href="#">FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</a><br>(EVL-2018-002, March 28, 2018) | OIG review pending closure.                               |
| <b>EVL-2018-001-5</b> | FHFA should direct FHFA employees to monitor the review and resolution of SEO disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.                            | <a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a><br>(EVL-2018-001, January 31, 2018)            | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation   | Report Name and Date   | Status  |
|-----------------------|--|--|---|
| <b>EVL-2017-002-1</b> | In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise’s] risk management of nonbank seller/servicers meets FHFA’s supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].  | <a href="#">FHFA’s Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a><br>(EVL-2017-002, December 21, 2016)          | Recommendation agreed to by FHFA; implementation pending. |
| <b>EVL-2016-005-1</b> | FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.) | <a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a><br>(EVL-2016-005, March 31, 2016) | OIG review pending closure.                               |
| <b>EVL-2016-003-3</b> | FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.   | <a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a><br>(EVL-2016-003, March 28, 2016)  | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation   | Report Name and Date   | Status  |
|-----------------------|--|--|---|
| <b>EVL-2016-003-4</b> | FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST Framework in a manner that achieves consistency with other federal financial regulators. | <a href="#"><u>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</u></a><br>(EVL-2016-003, March 28, 2016) | Recommendation agreed to by FHFA; implementation pending. |
| <b>EVL-2015-003-2</b> | FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.   | <a href="#"><u>Women and Minorities in FHFA's Workforce</u></a><br>(EVL-2015-003, January 13, 2015)  | OIG review pending closure.                               |
| <b>EVL-2014-002-2</b> | FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.   | <a href="#"><u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u></a><br>(EVL-2014-002, December 19, 2013)                                 | OIG review pending closure.                               |
| <b>EVL-2014-002-3</b> | FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.  | <a href="#"><u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u></a><br>(EVL-2014-002, December 19, 2013)                                 | OIG review pending closure.                               |
| <b>EVL-2013-010-1</b> | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.  | <a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a><br>(EVL-2013-010, August 22, 2013)                                      | OIG review pending closure.                               |

| No.                   | Recommendation  | Report Name and Date  | Status                      |
|-----------------------|---|---|-----------------------------|
| <b>EVL-2013-010-3</b> | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly. | <a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a><br>(EVL-2013-010, August 22, 2013) | OIG review pending closure. |
| <b>EVL-2013-010-4</b> | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly. | <a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a><br>(EVL-2013-010, August 22, 2013) | OIG review pending closure. |

| No.            | Recommendation  | Report Name and Date  | Status   |
|----------------|---|---|--|
| COM-2017-005-1 | FHFA should develop and implement a plan containing a timeliness standard by which to eliminate the current backlog of referrals and prevent future backlogs. | <a href="#">FHFA Should Improve its Administration of the Suspended Counterparty Program</a> (COM-2017-005, July 31, 2017); <i>see also</i> <a href="#">Compliance Review of FHFA's Suspended Counterparty Program</a> (COM-2019-002, January 25, 2019) | Recommendation agreed to by FHFA; implementation pending. This recommendation was agreed to in July 2017 and closed in February 2018. In January 2019, an OCom review found that FHFA had not implemented the agreed-upon corrective actions. OCom determined that the recommendation should be reopened and remain open until FHFA establishes and implements timeliness processing standards to avoid future backlogs. |

| No.                   | Recommendation   | Report Name and Date   | Status   |
|-----------------------|--|--|--|
| <b>COM-2015-001-1</b> | FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of government-sponsored enterprise examinations.  | <a href="#">OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015); <i>see also</i> <a href="#">FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</a> (COM-2018-006, September 6, 2018) | Recommendation agreed to by FHFA; implementation pending. In September 2018, OCom reported its assessment of the status of the Housing Finance Examiner Commission Program. OCom determined that the recommendation should be maintained as open and OCom will monitor FHFA’s efforts to revise the Program. |
| <b>OIG-2019-004-1</b> | FHFA should develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee. | <a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)   | Recommendation agreed to by FHFA; implementation pending.  |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>OIG-2019-004-2</b> | FHFA should provide training on the operation of its written policy [on the hiring of relatives], with examples, to educate FHFA employees on the limitations on the hiring of relatives. | <a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br>(OIG-2019-004, March 26, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>OIG-2019-004-3</b> | FHFA should reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.  | <a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br>(OIG-2019-004, March 26, 2019) | Recommendation agreed to by FHFA; implementation pending. |

| No.                   | Recommendation  | Report Name and Date  | Status   |
|-----------------------|---|---|--|
| <b>OIG-2019-004-4</b> | <p>FHFA should require written certifications from hiring officials and human resources officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:</p> <p>a. After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;</p> <p>b. After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> | <p>Recommendation agreed to by FHFA; implementation pending.</p> |
| <b>OIG-2019-004-5</b> | <p>FHFA should execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.</p>  | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> | <p>Recommendation agreed to by FHFA; implementation pending.</p> |

| No.                   | Recommendation  | Report Name and Date  | Status  |
|-----------------------|---|---|---|
| <b>OIG-2019-004-6</b> | FHFA should determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.  | <a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br>(OIG-2019-004, March 26, 2019) | Recommendation agreed to by FHFA; implementation pending. |
| <b>OIG-2018-001-1</b> | Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should promptly perform a comprehensive review of the conflict of interest implications arising from [redacted] possible involvement in Fannie Mae’s assessment of the potential impact of [redacted] and possible discussions with FHFA about Fannie Mae’s assessment, in light of [redacted] employment of [redacted] as [redacted]. Public release by OIG of certain information in the Management Alert is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a). | <a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a><br>(OIG-2018-001, July 26, 2018)             | OIG review pending closure.                               |

| No.                   | Recommendation  | Report Name and Date  | Status                      |
|-----------------------|---|---|-----------------------------|
| <b>OIG-2018-001-2</b> | Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should ensure appropriate controls are in place to mitigate any potential, apparent, or actual conflict of interest. | <a href="#"><u>Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</u></a> (OIG-2018-001, July 26, 2018) | OIG review pending closure. |

**Figure 5.<sup>4</sup>**

## Summary of OIG Outstanding Unimplemented Recommendations

| Fiscal Year | Number of Unimplemented Recommendations                        | Total Number of Reports with Unimplemented Recommendations | Dollar Value of Aggregate Potential Cost Savings |
|-------------|--|--|--|
| 2013        | 3 open recommendations<br>1 closed, rejected recommendation    | 2  | \$–  |
| 2014        | 2 open recommendations<br>8 closed, rejected recommendations   | 7  | \$5,015,505 <sup>5</sup>                         |
| 2015        | 2 open recommendations<br>1 closed, rejected recommendation    | 3  | \$–  |
| 2016        | 4 open recommendations<br>14 closed, rejected recommendations  | 11 <sup>6</sup>  | \$–  |
| 2017        | 8 open recommendations<br>2 closed, rejected recommendations   | 6 <sup>7</sup>   | \$–  |
| 2018        | 11 open recommendations<br>5 closed, rejected recommendations  | 10   | \$–  |
| 2019        | 18 open recommendations<br>2 closed, rejected recommendations  | 7  |  |
| TOTAL       | 48 open recommendations<br>33 closed, rejected recommendations | 46   | \$5,015,505                                      |

<sup>4</sup> This figure summarizes OIG’s outstanding unimplemented recommendations, comprised of open recommendations and closed, rejected recommendations, which were closed in light of the Agency’s permanent rejection or failure to follow through on corrective action.

<sup>5</sup> This potential cost savings is associated with a closed, rejected recommendation.

<sup>6</sup> Recommendations from AUD-2016-007 are repeated in AUD-2016-006 and AUD-2016-005. Each repeated recommendation is only counted once; the reports are counted separately.

<sup>7</sup> As with 2016, some audit recommendations appear in two reports (AUD-2017-010 and AUD-2017-011). Recommendations are counted only once; reports are counted separately.

Figure 6.

## Summary of OIG Open Recommendations

| Specific Risk to be Mitigated                        | Open Recommendation   | Expected Impact           | Report Name and Date   |
|--|---|---------------------------|--|
| <b>Conservatorship: Delegated Responsibilities</b>   |   |                           |  |
| <b>Development of Common Securitization Platform</b> | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly. | Improved fraud prevention | <a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a><br>(EVL-2013-010, August 22, 2013) |
|  | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly. | Improved fraud prevention | <a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a><br>(EVL-2013-010, August 22, 2013) |
|  | Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly. | Improved fraud prevention | <a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a><br>(EVL-2013-010, August 22, 2013) |

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact    | Report Name and Date   |
|-------------------------------|---|--------------------|--|
| <b>Conflicts of Interest</b>  | FHFA should direct FHFA employees to monitor the review and resolution of SEO disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.  | Improved oversight | <a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a><br>(EVL-2018-001, January 31, 2018) |
|                               | Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should promptly perform a comprehensive review of the conflict of interest implications arising from [redacted] possible involvement in Fannie Mae’s assessment of the potential impact of [redacted] and possible discussions with FHFA about Fannie Mae’s assessment, in light of [redacted] employment of [redacted] as [redacted]. | Improved oversight | <a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a><br>(OIG-2018-001, July 26, 2018)  |
|                               | Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should ensure appropriate controls are in place to mitigate any potential, apparent, or actual conflict of interest.   | Improved oversight | <a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a><br>(OIG-2018-001, July 26, 2018)  |

| Specific Risk to be Mitigated                      | Open Recommendation  | Expected Impact      | Report Name and Date  |
|--|--|----------------------|---|
| <b>Oversight of Sensitive Conservator Requests</b> | FHFA should establish a process for maintaining and monitoring sensitive conservator requests in the DOC's Status Tracking and Reporting System.   | Improved oversight   | <a href="#"><u>FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</u></a><br>(EVL-2019-001, March 26, 2019)   |
| <b>Data Integrity</b>                              | FHFA should work with Fannie Mae to resolve the high instance (over 10 percent of loans during our review period) of the property valuation method being reported as "unknown" in the Mortgage Loan Integrated System. | Improved oversight   | <a href="#"><u>Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017</u></a><br>(AUD-2019-006, March 27, 2019) |
| <b>Supervision</b>                                 |  |                      |   |
| <b>Examiner Capacity</b>                           | FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.   | Improved supervision | <a href="#"><u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u></a><br>(EVL-2014-002, December 19, 2013)  |
|  | FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.  | Improved supervision | <a href="#"><u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u></a><br>(EVL-2014-002, December 19, 2013)  |

| Specific Risk to be Mitigated | Open Recommendation  | Expected Impact             | Report Name and Date   |
|-------------------------------|--|-----------------------------|--|
|                               | <p>FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.</p> | <p>Improved supervision</p> | <p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017)</p>   |
|                               | <p>FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.</p> | <p>Improved supervision</p> | <p><a href="#">FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016)</p> |

| Specific Risk to be Mitigated     | Open Recommendation   | Expected Impact  | Report Name and Date  |
|-----------------------------------|---|------------------|---|
| <b>Accreditation of Examiners</b> | FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of GSE examinations. | Improved quality | <a href="#">OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015);<br><a href="#">FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</a> (COM-2018-006, September 6, 2018) |

| Specific Risk to be Mitigated                                    | Open Recommendation   | Expected Impact                             | Report Name and Date  |
|--|---|---|---|
| <p><b>Communication of Deficiencies to Enterprise Boards</b></p> | <p>FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.)</p> | <p>Improved supervision</p>                 | <p><a href="#"><u>FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</u></a> (EVL-2016-005, March 31, 2016), <a href="#"><u>Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors</u></a> (COM-2018-005, September 5, 2018)</p> |
| <p><b>Assessing Remediation of Deficiencies</b></p>              | <p>FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].</p>   | <p>Improved remediation of deficiencies</p> | <p><a href="#"><u>FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</u></a> (AUD-2018-008, March 28, 2018)</p>   |

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact                             | Report Name and Date   |
|-------------------------------|---|---|--|
|                               | <p>FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners' independent assessments of Internal Audit's work and specifies the conditions under which examiner testing is expected.</p> | <p>Improved remediation of deficiencies</p> | <p><a href="#"><u>FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</u></a><br/>(EVL-2018-003, March 28, 2018)</p>               |
|                               | <p>FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise's Internal Audit function when assessing the adequacy of MRA remediation.</p>                                  | <p>Improved remediation of deficiencies</p> | <p><a href="#"><u>FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</u></a><br/>(EVL-2018-002, March 28, 2018)</p> |

| Specific Risk to be Mitigated                    | Open Recommendation  | Expected Impact                 | Report Name and Date   |
|--|--|---------------------------------|--|
| <p><b>Use of Fraud Risk Reporting</b></p>        | <p>Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommend that FHFA re-evaluate the fraud information it requires from the Enterprises, and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises.</p> | <p>Improved supervision</p>     | <p><a href="#"><u>FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility</u></a> (EVL-2018-004, September 24, 2018)</p>  |
| <p><b>Counterparties</b></p>                     |  |                                 |  |
| <p><b>Compliance with Advisory Bulletins</b></p> | <p>In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise's] risk management of nonbank seller/servicers meets FHFA's supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].</p>   | <p>Improved risk management</p> | <p><a href="#"><u>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</u></a> (EVL-2017-002, December 21, 2016)</p> |

| Specific Risk to be Mitigated                   | Open Recommendation  | Expected Impact           | Report Name and Date  |
|---|--|---------------------------|---|
| <b>Improved Fraud Prevention</b>                | FHFA should develop and implement a plan containing a timeliness standard by which to eliminate the current backlog of referrals and prevent future backlogs.  | Improved fraud prevention | <a href="#">FHFA Should Improve its Administration of the Suspended Counterparty Program</a><br>(COM-2017-005, July 31, 2017); <i>see also</i> <a href="#">Compliance Review of FHFA's Suspended Counterparty Program</a><br>(COM-2019-002, January 25, 2019) |
| <b>Information Technology</b>                   |  |                           |   |
| <b>Information Technology Risk Examinations</b> | FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.   | Improved risk management  | <a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a><br>(EVL-2016-003, March 28, 2016)   |
|   | FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST framework in a manner that achieves consistency with other federal financial regulators. | Improved risk management  | <a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a><br>(EVL-2016-003, March 28, 2016)   |

| Specific Risk to be Mitigated                  | Open Recommendation   | Expected Impact                            | Report Name and Date  |
|--|---|--|---|
| <b>Privacy Information and Data Protection</b> | The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored. | Improved protection of privacy information | <a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)                         |
|  | The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.  | Improved protection of privacy information | <a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)                         |
|  | The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.   | Improved protection of privacy information | <a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)                         |
|  | The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.                                | Improved protection of privacy information | <a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a><br>(AUD-2017-007, August 30, 2017)                         |
| <b>FHFA Information Technology Security</b>    | Because information in this report could be used to circumvent FHFA’s internal controls, it has not been released publicly.   | Improved information security              | <a href="#">Performance Audit of the Federal Housing Finance Agency’s Information Security Program Fiscal Year 2018</a><br>(AUD-2019-001, October 24, 2018) |

| Specific Risk to be Mitigated | Open Recommendation  | Expected Impact               | Report Name and Date  |
|-------------------------------|--|-------------------------------|---|
|                               | Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.  | Improved information security | <a href="#">Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018</a><br>(AUD-2019-001, October 24, 2018) |
|                               | FHFA should ensure planned systems replacements meet NIST Special Publication 800-52 Revision 1 requirements for encryption. | Improved information security | <a href="#">External Penetration Test of FHFA's Network and Systems During 2018</a><br>(AUD-2019-003, February 11, 2019)                                    |
|                               | FHFA should emphasize to employees the need to [redacted] in emails and report suspicious emails.                            | Improved information security | <a href="#">External Penetration Test of FHFA's Network and Systems During 2018</a><br>(AUD-2019-003, February 11, 2019)                                    |
|                               | FHFA should continue to perform periodic phishing email tests.   | Improved information security | <a href="#">External Penetration Test of FHFA's Network and Systems During 2018</a><br>(AUD-2019-003, February 11, 2019)                                    |

## Agency Operations

|  |  |                                      |  |
|--|--|--------------------------------------|--|
| <b>Oversight of FHFA Workforce Matters</b> | FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions. | Improved opportunities and oversight | <a href="#">Women and Minorities in FHFA's Workforce</a><br>(EVL-2015-003, January 13, 2015) |
|--|--|--------------------------------------|--|

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact                      | Report Name and Date  |
|-------------------------------|---|--------------------------------------|---|
|                               | FHFA should develop and implement written procedures for all offboarding activities, to include procedures for the collection and deactivation of access cards for FHFA facilities and the collection and transfer of Enterprise access cards.                              | Improved opportunities and oversight | <a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br>(AUD-2019-004, March 13, 2019) |
|                               | FHFA should ensure that PIV cards are collected, and building access is deactivated, for all separated and departed individuals to whom cards were issued. For unaccounted/lost PIV cards, ensure that building access associated with those cards is promptly deactivated. | Improved opportunities and oversight | <a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br>(AUD-2019-004, March 13, 2019) |
|                               | FHFA should implement controls to ensure all departed contractor employees complete applicable offboarding requirements.  | Improved opportunities and oversight | <a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br>(AUD-2019-004, March 13, 2019) |

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact   | Report Name and Date  |
|-------------------------------|---|---|---|
|                               | <p>FHFA should reinforce, through training and supervision, that offices with offboarding responsibilities ensure offboarding forms are properly completed.</p>   | <p>Improved opportunities and oversight</p>                         | <p><a href="#">FHFA’s Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br/>(AUD-2019-004, March 13, 2019)</p> |
|                               | <p>FHFA should ensure that offboarding documentation is maintained in accordance with FHFA’s retention requirement.</p>   | <p>Improved opportunities and oversight</p>                         | <p><a href="#">FHFA’s Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a><br/>(AUD-2019-004, March 13, 2019)</p> |
|                               | <p>FHFA should develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.</p> | <p>Prevent the improper hiring of relatives of Agency employees</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p>           |

| Specific Risk to be Mitigated | Open Recommendation  | Expected Impact   | Report Name and Date  |
|-------------------------------|--|---|---|
|                               | <p>FHFA should provide training on the operation of its written policy [on the hiring of relatives], with examples, to educate FHFA employees on the limitations on the hiring of relatives.</p> | <p>Prevent the improper hiring of relatives of Agency employees</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> |
|                               | <p>FHFA should reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.</p>  | <p>Prevent the improper hiring of relatives of Agency employees</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> |

| Specific Risk to be Mitigated   | Open Recommendation   | Expected Impact   | Report Name and Date |
|---|---|---|----------------------|
| <p>FHFA should require written certifications from hiring officials and human resources officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:</p> <p>a. After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;</p> <p>b. After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.</p> | <p>Prevent the improper hiring of relatives of Agency employees</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> |                      |
| <p>FHFA should execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.</p>  | <p>Prevent the improper hiring of relatives of Agency employees</p> | <p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br/>(OIG-2019-004, March 26, 2019)</p> |                      |

| Specific Risk to be Mitigated         | Open Recommendation   | Expected Impact  | Report Name and Date  |
|---------------------------------------|---|--|---|
|                                       | FHFA should determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.  | Prevent the improper hiring of relatives of Agency employees | <a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent Improper Hiring of Relatives of Agency Employees</a><br>(OIG-2019-004, March 26, 2019) |
| <b>Management of Agency Resources</b> | FHFA should develop, document, and implement control activities to ensure that (a) only current FHFA employees are receiving transportation benefits, (b) no employee is improperly participating in both transportation benefit programs, (c) FHFA’s Transit Benefits System has a record/certification for each employee who receives a transportation benefit, and (d) SmarTrip® cards are physically controlled. Such control activities include periodic reconciliation of approved transit subsidy recipients in [the] Transit Benefits System to FHFA transit subsidy recipients listed on Washington Metropolitan Area Transit Authority Monthly Activity Reports; periodic reconciliation of approved transit subsidy recipients to active parking permit recipients; and periodic inventory counts of SmarTrip® cards registered to FHFA and undistributed parking permits. | Improved management of resources                             | <a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a><br>(AUD-2018-013, September 25, 2018)  |

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact                  | Report Name and Date  |
|-------------------------------|---|----------------------------------|---|
|                               | FHFA should ensure that FHFA’s Transit Benefits System has accurate and up-to-date records of, and current certifications for, each FHFA employee who receives a transportation benefit.  | Improved management of resources | <a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018) |
|                               | Should FHFA identify, through these newly implemented controls, any individuals who improperly used transit subsidies to which they were not entitled, FHFA should determine whether to recover the amounts (taking cost/benefit into consideration). | Improved management of resources | <a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018) |

| Specific Risk to be Mitigated | Open Recommendation   | Expected Impact                         | Report Name and Date   |
|-------------------------------|---|---|--|
|                               | <p>FHFA should reinforce FHFA’s government travel card policies and procedures through periodic reminders to, and training of, FHFA travelers and approving officials, including requirements to ensure:</p> <ul style="list-style-type: none"> <li>• Travel card holders do not pay lodging taxes in states that exempt government issued travel cards from taxes;</li> <li>• Employees submit vouchers within five working days after employees complete their travel, initiate travel only after their travel authorizations are approved, and submit required receipts with travel vouchers;</li> <li>• Employees use their government-issued travel cards for all official travel expenses; and</li> <li>• Employees use travel cards only for official travel.</li> </ul> | <p>Improved management of resources</p> | <p><a href="#">Audit of FHFA’s Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials</a><br/>(AUD-2018-014, September 25, 2018)</p> |

**Figure 7.**

## Summary of Closed, Unimplemented Recommendations

| Specific Risk to be Mitigated                                | Closed, Unimplemented Recommendation   | Expected Impact    | Report Name and Date  |
|--|--|--------------------|---|
| <b>Property Inspection Quality Controls</b>                  | FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.   | Improved quality   | <a href="#">FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</a><br>(AUD-2014-012, March 25, 2014)                 |
| <b>Improperly Reimbursed Property Inspection Claims</b>      | FHFA should direct Fannie Mae to obtain a refund from servicers for improperly reimbursed property inspection claims, resulting in estimated funds put to better use of \$5,015,505.   | Improved accuracy  | <a href="#">FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</a><br>(AUD-2014-005, January 15, 2014) |
| <b>Seller/Servicer Resolution of Aged Repurchase Demands</b> | FHFA should promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit. | Improved oversight | <a href="#">FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</a><br>(AUD-2014-009, February 12, 2014)                             |

| Specific Risk to be Mitigated  | Closed, Unimplemented Recommendation  | Expected Impact               | Report Name and Date   |
|--|---|-------------------------------|--|
| <b>Oversight of Enterprise Implementation of Representation and Warranty Framework</b> | FHFA should perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency’s objectives. | Improved framework management | <a href="#">FHFA’s Representation and Warranty Framework</a> (AUD-2014-016, September 17, 2014)  |
| <b>Seller/Servicer Compliance with Guidance</b>  | FHFA should direct Fannie Mae and Freddie Mac to assess the cost/benefit of a risk-based approach to requiring their sellers and servicers to provide independent, third-party attestation reports on compliance with Enterprise origination and servicing guidance.  | Improved compliance           | <a href="#">FHFA’s Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</a> (AUD-2014-018, September 26, 2014) |
| <b>Collection of Funds from Servicers</b>  | FHFA should publish Fannie Mae’s reduction targets and overpayment findings.  | Improved transparency         | <a href="#">Evaluation of Fannie Mae’s Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)   |

| Specific Risk to be Mitigated                         | Closed, Unimplemented Recommendation   | Expected Impact     | Report Name and Date  |
|---|--|---------------------|---|
| <b>Examination of Recordkeeping Practices</b>         | DER should adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between the two Core Teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.   | Improved efficiency | <a href="#">Evaluation of the Division of Enterprise Regulation’s 2013 Examination Records: Successes and Opportunities</a><br>(EVL-2015-001, October 6, 2014)        |
| <b>Oversight of Enterprise Executive Compensation</b> | FHFA should develop a strategy to enhance the Executive Compensation Branch’s capacity to review the reasonableness and justification of the Enterprises’ annual proposals to compensate their executives based on Corporate Scorecard performance. To this end, FHFA should ensure that: the Enterprises submit proposals containing information sufficient to facilitate a comprehensive review by the Executive Compensation Branch; the Executive Compensation Branch tests and verifies the information in the Enterprises’ proposals, perhaps on a randomized basis; and the Executive Compensation Branch follows up with the Enterprises to resolve any proposals that do not appear to be reasonable and justified. | Improved oversight  | <a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a><br>(COM-2016-002, March 17, 2016) |

| Specific Risk to be Mitigated | Closed, Unimplemented Recommendation   | Expected Impact            | Report Name and Date   |
|-------------------------------|--|----------------------------|--|
|                               | <p>FHFA should develop a policy under which it is required to notify OIG within 10 days of its decision not to fully implement, substantially alter, or abandon a corrective action that served as the basis for OIG’s decision to close a recommendation.</p>   | <p>Improved oversight</p>  | <p><a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a><br/>(COM-2016-002, March 17, 2016)</p>                            |
|                               | <p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae’s continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the CEO and President positions, with annual compensation capped at \$600,000 since 2015.</p> | <p>Improved governance</p> | <p><a href="#">FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a><br/>(EVL-2019-001, March 26, 2019)</p> |

| Specific Risk to be Mitigated                             | Closed, Unimplemented Recommendation   | Expected Impact   | Report Name and Date  |
|---|--|---|---|
|   | <p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac’s continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the CEO responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA’s representation that Candidate A will leave Freddie Mac if he is not selected for the CEO position.</p> | <p>Improved governance</p>                                | <p><a href="#">FHFA’s Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a> (EVL-2019-002, March 26, 2019)</p> |
| <p><b>Oversight of Servicing Alignment Initiative</b></p> | <p>FHFA’s Division of Housing Mission and Goals Deputy Director should establish an ongoing process to evaluate servicers’ Servicing Alignment Initiative compliance and the effectiveness of the Enterprises’ remediation efforts.</p>  | <p>Improved servicing compliance and minimized losses</p> | <p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p>   |

| Specific Risk to be Mitigated | Closed, Unimplemented Recommendation   | Expected Impact   | Report Name and Date  |
|-------------------------------|--|---|---|
|                               | <p>FHFA’s Division of Housing Mission and Goals Deputy Director should direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals’ assessment.</p>                               | <p>Improved servicing compliance and minimized losses</p> | <p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p> |
|                               | <p>FHFA’s Division of Housing Mission and Goals Deputy Director should regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers’ actual versus expected performance.</p> | <p>Improved servicing compliance and minimized losses</p> | <p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p> |

| Specific Risk to be Mitigated                 | Closed, Unimplemented Recommendation   | Expected Impact             | Report Name and Date  |
|---|--|-----------------------------|---|
| <p><b>Targeted Examinations Completed</b></p> | <p>FHFA should revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance.</p> | <p>Improved supervision</p> | <p><a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">FHFA’s Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016); <a href="#">FHFA’s Supervisory Planning Process for the Enterprises: Roughly Half of FHFA’s 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</a> (AUD-2016-005, September 30, 2016)</p> |

| Specific Risk to be Mitigated                                     | Closed, Unimplemented Recommendation   | Expected Impact                             | Report Name and Date   |
|---|--|---|--|
| <p><b>Oversight of Enterprise Remediation of Deficiencies</b></p> | <p>FHFA should review FHFA’s existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and other federal financial regulators including, but not limited to, content of an MRA; standards for proposed remediation plans; approval authority for proposed remediation plans; real-time assessments at regular intervals of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; final assessment of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; and required documentation for examiner oversight of MRA remediation.</p> | <p>Improved remediation of deficiencies</p> | <p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p> |
|   | <p>Based on the results of the review in recommendation 1, FHFA should assess whether any of the existing requirements, guidance, and processes adopted by FHFA should be enhanced, and make such enhancements.</p>  | <p>Improved remediation of deficiencies</p> | <p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p> |

| Specific Risk to be Mitigated                             | Closed, Unimplemented Recommendation  | Expected Impact          | Report Name and Date   |
|---|---|--------------------------|--|
| <b>Communication of Deficiencies to Enterprise Boards</b> | FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each plan submitted by Enterprise management to remediate an MRA with associated timetables and the response by DER.   | Improved Board oversight | <a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a><br>(EVL-2016-005, March 31, 2016)   |
|   | FHFA should direct DER to develop detailed guidance and promulgate that guidance to each Enterprise’s board of directors that explains: <ul style="list-style-type: none"> <li>• The purpose for DER’s annual presentation to each Enterprise board of directors on the ROE results, conclusions, and supervisory concerns and the opportunity for directors to ask questions and discuss ROE examination conclusions and supervisory concerns at that presentation; and</li> <li>• The requirement that each Enterprise board of directors submit a written response to the annual ROE to DER and the expected level of detail regarding ongoing and contemplated remediation in that written response.</li> </ul> | Improved Board oversight | <a href="#">FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</a><br>(EVL-2016-009, July 14, 2016) |

| Specific Risk to be Mitigated                | Closed, Unimplemented Recommendation  | Expected Impact                      | Report Name and Date  |
|--|---|--------------------------------------|---|
|  | FHFA should direct the Enterprises' boards to amend their charters to require review by each director of each annual ROE and review and approval of the written response to DER in response to each annual ROE. | Improved Board oversight             | <a href="#"><u>FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</u></a><br>(EVL-2016-009, July 14, 2016) |
| <b>Assessing Remediation of Deficiencies</b> | FHFA should ensure that the underlying remediation documents, including the Procedures Document, are readily available by direct link or other means, through DER's MRA tracking system(s).                     | Improved remediation of deficiencies | <a href="#"><u>FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises</u></a><br>(EVL-2016-007, July 14, 2016)                 |
|  | FHFA should require DER to track interim milestones and to independently assess and document the timeliness and adequacy of Enterprise remediation of MRAs on a regular basis.                                  | Improved remediation of deficiencies | <a href="#"><u>FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises</u></a><br>(EVL-2016-007, July 14, 2016)                 |

| Specific Risk to be Mitigated | Closed, Unimplemented Recommendation  | Expected Impact                             | Report Name and Date  |
|-------------------------------|---|---|---|
|                               | <p>FHFA should require the Enterprises to provide, in their remediation plans, the target date in which their internal audit departments expect to validate management’s remediation of MRAs, and require examiners to enter that date into a dedicated field in the MRA tracking system.</p> | <p>Improved remediation of deficiencies</p> | <p><a href="#">FHFA’s Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA’s Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)</p>        |
|                               | <p>FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.</p>   | <p>Improved remediation of deficiencies</p> | <p><a href="#">FHFA Requires the Enterprises’ Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners’ Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)</p> |

| Specific Risk to be Mitigated                                      | Closed, Unimplemented Recommendation  | Expected Impact                             | Report Name and Date   |
|--|---|---|--|
|  | <p>FHFA should direct that examiners can use Internal Audit work to assess the adequacy of MRA remediation only if FHFA has concluded that the Internal Audit function is effective overall.</p>  | <p>Improved remediation of deficiencies</p> | <p><a href="#">FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)</p>  |
| <p><b>Identification of Deficiencies and Their Root Causes</b></p> | <p>FHFA should direct DER to revise its guidance to require ROEs to focus the boards' attention of the most critical and time-sensitive supervisory concerns through (1) the prioritization of examination findings and conclusions and (2) identification of deficiencies and MRAs in the ROE and discussion of their root causes.</p> | <p>Improved Board oversight</p>             | <p><a href="#">FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns</a> (EVL-2016-008, July 14, 2016)</p> |

| Specific Risk to be Mitigated   | Closed, Unimplemented Recommendation  | Expected Impact    | Report Name and Date  |
|---|---|--------------------|---|
| <b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>      | FHFA should ensure that it has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the buildout plans and associated budget(s), as Fannie Mae continues to revise and refine them.  | Improved oversight | <a href="#">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)</a> |
|   | FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to DOC for its review and for FHFA approval through the design and construction of Fannie Mae’s leased space in Midtown Center.   | Improved oversight | <a href="#">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)</a> |
| <b>Oversight of Fannie Mae Northern Virginia Consolidation and Relocation</b> | To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties. | Reduced waste      | <a href="#">Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce (OIG-2018-004, September 6, 2018)</a>  |

| Specific Risk to be Mitigated       | Closed, Unimplemented Recommendation   | Expected Impact           | Report Name and Date   |
|-------------------------------------|--|---------------------------|--|
|                                     | <p>To reduce the waste from Option C, FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.</p> | <p>Reduced waste</p>      | <p><a href="#">Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)</p>  |
| <p><b>Conflicts of Interest</b></p> | <p>Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>                    | <p>Improved oversight</p> | <p><a href="#">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</a> (OIG-2017-004, March 23, 2017)</p> |

| Specific Risk to be Mitigated                | Closed, Unimplemented Recommendation  | Expected Impact            | Report Name and Date  |
|--|---|----------------------------|---|
|  | <p>Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p> | <p>Improved oversight</p>  | <p><a href="#"><u>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</u></a><br/>(OIG-2017-004, March 23, 2017)</p>                     |
| <p><b>Management of Agency Resources</b></p> | <p>FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.</p>  | <p>Improved compliance</p> | <p><a href="#"><u>Audit of FHFA’s Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</u></a><br/>(AUD-2018-011, September 6, 2018)</p> |

# Appendix C: OI Publicly Reportable Investigative Outcomes Involving Condo Conversion and Builder Bailout Schemes

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure, causing the lenders to suffer large losses. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| Sentencing in Condo Conversion Scheme, Illinois |  |   |                |
|---|--|---|----------------|
| Defendant                                       | Role   | Most Recent Action  | Date           |
| Alexander Shapiro                               | Licensed Mortgage Broker/Real Estate Developer | Sentenced to 1 day in prison and ordered to pay \$1,030,769 in restitution. | March 18, 2019 |

| Sentencing in \$21 Million Builder Bailout Fraud Scheme, California |                                    |  |                |
|---|------------------------------------|--|----------------|
| Defendant   | Role                               | Most Recent Action   | Date           |
| Jacqueline Burchell   | Escrow Agent/<br>Business Operator | Sentenced to 4 months in prison, 4 months of home confinement, 3 years of supervised release, and ordered to pay \$17,723,048 in restitution, joint and several. | March 11, 2019 |

### Real Estate Broker and Business Partner Sentenced in Mortgage Scheme, Florida

| Defendant            | Role                           | Most Recent Action   | Date          |
|----------------------|--------------------------------|--|---------------|
| Geo Geovanni         | Real Estate Agent/<br>Investor | Sentenced to 37 months in prison, 3 years of supervised release, and ordered to pay \$736,791 in restitution and \$56,948 in forfeiture, joint and several.                      | March 4, 2019 |
| Elizabeth Longerbone | Business Partner               | Sentenced to 1 day in prison, 6 months home detention, 3 years of supervised release, and ordered to pay \$313,200 in restitution and \$56,948 in forfeiture, joint and several. | March 4, 2019 |

### Sentencing of Real Estate Investor/Recruiter in Builder-Bailout Scheme, Florida

| Defendant      | Role                              | Most Recent Action  | Date              |
|----------------|-----------------------------------|---|-------------------|
| Henry Frierson | Real Estate<br>Investor/Recruiter | Sentenced to 1 day in prison, 6 months home detention, 3 years of supervised release, and ordered to pay \$974,745 in restitution, joint and several. | February 22, 2019 |

### Sentencings of Real Estate Developer and Attorney in Builder Bailout Scheme, Illinois

| Defendant        | Role                     | Most Recent Action  | Date             |
|------------------|--------------------------|---|------------------|
| Warren Barr, III | Real Estate<br>Developer | Sentenced to 87 months in prison, 2 years of supervised release, and ordered to pay \$12,423,627 in restitution, joint and several. | February 1, 2019 |
| Robert Lattas    | Attorney                 | Sentenced to 63 months in prison and ordered to pay \$12,840,319 in restitution, joint and several.                                 | October 2, 2018  |

### Four Indicted in Condominium Conversion/Builder Bailout Scheme, Illinois

| Defendant         | Role                               | Most Recent Action                     | Date             |
|-------------------|------------------------------------|--|------------------|
| Igor Krivoruchko  | Real Estate Developer              | Charged by indictment with bank fraud. | January 29, 2019 |
| Lily Harutunian   | Title Company Owner                | Charged by indictment with bank fraud. | January 29, 2019 |
| Oksana Chura      | Real Estate Agent/<br>Loan Officer | Charged by indictment with bank fraud. | January 29, 2019 |
| Kimberly Dierking | Closer                             | Charged by indictment with bank fraud. | January 29, 2019 |

### Sentencings in Builder Bailout Fraud Scheme, Illinois

| Defendant       | Role                                | Most Recent Action  | Date              |
|-----------------|-------------------------------------|---|-------------------|
| Walter Vali     | Mortgage Broker                     | Sentenced to 3 months in prison, 2 years of supervised release, and ordered to pay \$5,982,730 in restitution, joint and several.   | January 17, 2019  |
| Vince Manglardi | Developer                           | Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$14,614,302 in restitution, joint and several.   | December 20, 2018 |
| Karin Ganser    | Real Estate Salesperson             | Sentenced to 1 day in prison, 6 months of home incarceration, 2 years of supervised release, and ordered to pay \$1,540,755 in restitution, joint and several.                      | November 6, 2018  |
| Nunzio Grieco   | Director of Contract Administration | Sentenced to 3 years of probation and ordered to pay \$589,905 in restitution, joint and several.   | October 11, 2018  |
| David Belconis  | Attorney                            | Sentenced to 1 day in prison, 6 months of home incarceration, 2 years of supervised release, and ordered to pay a fine of \$10,000 and \$190,485 in restitution, joint and several. | October 9, 2018   |

### Restitution Ordered for Co-Defendants in Condominium Scheme, Florida

| Defendant            | Role                  | Most Recent Action  | Date             |
|----------------------|-----------------------|---|------------------|
| George Heaton        | Real Estate Developer | Ordered to pay \$3,038,249 in restitution, joint and several. | January 9, 2019  |
| Eric Granitur        | Attorney/Escrow Agent | Ordered to pay \$1,637,423 in restitution, joint and several. | October 22, 2018 |
| Stephen McKenzie     | Straw Buyer           | Ordered to pay \$1,407,806 in restitution, joint and several. | October 22, 2018 |
| Debra Dentry-Baggett | Accountant            | Ordered to pay \$257,570 in restitution.                      | October 22, 2018 |

### Sentencing and Restitution Ordered for Real Estate Broker/Recruiter in Condominium Fraud Scheme, Florida

| Defendant        | Role                         | Most Recent Action  | Date                                 |
|------------------|------------------------------|---|--------------------------------------|
| Emily Echavarria | Real Estate Broker/Recruiter | Sentenced to 18 months in prison and 5 years of supervised release, and ordered to pay \$1,426,325 in restitution, joint and several. | November 16, 2018 & February 1, 2019 |

# Appendix D: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Guilty Plea of Bank Vice President in Loan Origination Fraud Scheme, Mississippi</b> |                |   |                |
|---|----------------|---|----------------|
| <b>Defendant</b>  | <b>Role</b>    | <b>Most Recent Action</b>                       | <b>Date</b>    |
| Max Miller  | Vice President | Pled guilty to conspiracy to commit bank fraud. | March 12, 2019 |

| <b>Sentencings of Loan Officer and Cook County Judge convicted in Mortgage Fraud Scheme, Illinois</b> |  |   |                   |
|---|--|---|-------------------|
| <b>Defendant</b>  | <b>Role</b>                            | <b>Most Recent Action</b>   | <b>Date</b>       |
| Maria Bartko  | Loan Officer                           | Sentenced to 7 months in prison, 2 years of supervised release, and ordered to pay \$1,335,500 in restitution, joint and several. | February 26, 2019 |
| Jessica Arong O'Brien   | Judge/ Loan Officer/ Real Estate Agent | Sentenced to 366 days in prison, 2 years of supervised release, and ordered to pay \$660,000 in restitution, joint and several.   | December 20, 2018 |

### Co-Conspirators Previously Convicted for Their Roles in Defrauding Mortgage Lending Institutions Receive Criminal Money Judgements and Sentencing, New York

| Defendant              | Role                | Most Recent Action   | Date              |
|------------------------|---------------------|--|-------------------|
| Barthelemy Adjavehoude | Straw Buyer         | Ordered to pay \$100,000 in forfeiture.  | February 14, 2019 |
| Michelle Baker         | Title Agent         | Ordered to pay \$1,105,426 in restitution, joint and several, and \$4,225 in forfeiture.                     | December 12, 2018 |
| James Bayfield         | Mortgage Specialist | Sentenced to 21 months in prison, 3 years of supervised release, and ordered to pay \$184,651 in forfeiture. | October 26, 2018  |

### Two Indicted for Targeting Elderly in Reverse Mortgage Loan Origination Fraud, New Jersey

| Defendant          | Role                            | Most Recent Action   | Date             |
|--------------------|---------------------------------|--|------------------|
| Rafael Peralta     | Loan Officer/<br>Business Owner | Charged by indictment with conspiracy to commit bank fraud and bank fraud. | February 8, 2019 |
| Philip Puccio, Jr. | Business Owner                  | Charged by indictment with conspiracy to commit bank fraud and bank fraud. | February 8, 2019 |

### Guilty Plea in Appraisal Fraud Scheme, Ohio

| Defendant        | Role           | Most Recent Action  | Date             |
|------------------|----------------|---|------------------|
| Cynthia Faulkner | Business Owner | Charged by information and pled guilty to misprision of felony. | January 30, 2019 |

# Appendix E: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| Guilty Pleas in Short Sale Fraud Scheme, North Carolina |                |  |                   |
|---|----------------|--|-------------------|
| Defendant   | Role           | Most Recent Action                                   | Date              |
| Starr Ilzhoefner  | Business Owner | Pled guilty to conspiracy to make a false statement. | February 25, 2019 |
| Aaron Guido   | Business Owner | Pled guilty to conspiracy to make a false statement. | February 25, 2019 |

| Sentencings of Real Estate Professionals in Short Sale Fraud Scheme, Arizona |                      |   |                   |
|--|----------------------|---|-------------------|
| Defendant  | Role                 | Most Recent Action  | Date              |
| Andrew Jemmett   | Real Estate Employee | Sentenced to 2 years of probation.  | February 13, 2019 |
| Jason Poyner   | Real Estate Broker   | Sentenced to 2 years of probation.  | February 13, 2019 |
| David Dziedzic   | Real Estate Broker   | Sentenced to 30 months in prison, 3 years of supervised release, and ordered to pay \$107,280 in restitution and \$142,000 in forfeiture. | December 17, 2018 |
| Heather Dziedzic   | Real Estate Broker   | Sentenced to 2 years of probation.  | December 17, 2018 |

### Indictment of Real Estate Agent/Investor in Short Sale Fraud Scheme, New Jersey

| Defendant      | Role                           | Most Recent Action   | Date             |
|----------------|--------------------------------|--|------------------|
| Anthony Garvin | Real Estate Agent/<br>Investor | Charged by indictment with conspiracy to commit bank fraud and bank fraud. | January 11, 2019 |

### Guilty Plea in \$6 Million Fraud Scheme, New Jersey

| Defendant    | Role        | Most Recent Action  | Date              |
|--------------|-------------|---|-------------------|
| Mehdi Kassai | Participant | Pled guilty to charges of bank fraud, wire fraud, and money laundering. | December 18, 2018 |

### Guilty Pleas of Real Estate Broker and Employee in a Buy-and-Bail Scheme, Michigan

| Defendant      | Role   | Most Recent Action                              | Date             |
|----------------|--|---|------------------|
| William Elias  | Business Owner/<br>Real Estate Broker            | Pled guilty to bank fraud and money laundering. | October 10, 2018 |
| Kimberly Doren | Processing<br>Manager/Real<br>Estate Salesperson | Pled guilty to bank fraud.                      | October 10, 2018 |

## Appendix F: OI Publicly Reportable Investigative Outcomes Involving Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant upfront fees or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Sentencings of Licensed Real Estate Agent and Loan Modification Scheme Operator, Virginia</b> |                                   |  |               |
|--|-----------------------------------|--|---------------|
| <b>Defendant</b>   | <b>Role</b>                       | <b>Most Recent Action</b>  | <b>Date</b>   |
| Rodrigo Pardo  | Licensed Real Estate Agent        | Sentenced to 21 months in prison, 3 years of supervised release, and ordered to pay \$401,103 in restitution, joint and several. | March 1, 2019 |
| Lorena Medina  | Loan Modification Scheme Operator | Sentenced to 21 months in prison, 3 years of supervised release, and ordered to pay \$401,103 in restitution, joint and several. | March 1, 2019 |

| <b>Sentencing of Notary/Bankruptcy Filing Preparer in Loan Modification Fraud Scheme, California</b> |                                   |   |                   |
|--|-----------------------------------|---|-------------------|
| <b>Defendant</b>   | <b>Role</b>                       | <b>Most Recent Action</b>   | <b>Date</b>       |
| Prakashkumar Bhakta  | Notary/Bankruptcy Filing Preparer | Sentenced to 7 years and 8 months in prison and ordered to pay \$256,494 in restitution, joint and several. | February 13, 2019 |

**Sentencings in Nationwide Loan Modification Scheme Operator, California**

| <b>Defendant</b> | <b>Role</b> | <b>Most Recent Action</b>  | <b>Date</b>       |
|------------------|-------------|--|-------------------|
| Kevin Suleiman   | Participant | Sentenced to 338 days in prison and 3 years of supervised release.   | December 14, 2018 |
| Rosa Barraza     | Participant | Charged by third superseding information, pled guilty to burglary and loan modification unlawful advance fee, and sentenced to 5 years of probation. | November 15, 2018 |

**Sentencings and Court Ordered Forfeiture and Restitution for Defendants in \$20 Million Mortgage Fraud Scheme, California**

| <b>Defendant</b>        | <b>Role</b> | <b>Most Recent Action</b>  | <b>Date</b>      |
|-------------------------|-------------|--|------------------|
| Ryu Goeku               | Participant | Sentenced to 32 months in prison, 3 years of supervised release, and ordered to pay \$9,978,360 in restitution, joint and several.                           | March 25, 2019   |
| Jane Matsuba-Garcia     | Participant | Sentenced to 57 months in prison, 3 years of supervised release, ordered to pay \$12,208,992 in restitution, joint and several, and \$200,446 in forfeiture. | December 3, 2018 |
| Dorothy Matsuba         | Participant | Ordered to pay \$12,208,992 in restitution, joint and several, and \$12,505,213 in forfeiture.   | October 17, 2018 |
| Jamie Matsuba           | Participant | Ordered to pay \$12,208,992 in restitution, joint and several, and \$2,040,840 in forfeiture.  | October 17, 2018 |
| Takaharo Thomas Matsuba | Participant | Ordered to pay \$12,208,992 in restitution, joint and several, and \$1,780,922 in forfeiture.  | October 17, 2018 |

## Loan Modification Operators Sentenced in Foreclosure Prevention Fraud Scheme, Maryland

| Defendant       | Role   | Most Recent Action   | Date             |
|-----------------|--|--|------------------|
| Michelle Jordan | CEO/Director of Company                          | Sentenced to 57 months in prison, 3 years of supervised release, and ordered to pay \$491,036 in restitution, joint and several.                     | December 3, 2018 |
| Michael Welsh   | President/Vice President and Director of Company | Sentenced to 46 months in prison, 3 years of supervised release, and ordered to pay \$491,036 in restitution, joint and several.                     | December 3, 2018 |
| Carrol Jackson  | Owner/Manager of Company                         | Sentenced to time served, 9 months of home detention, 3 years of supervised release, and ordered to pay \$491,036 in restitution, joint and several. | December 3, 2018 |

## Appendix G: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes

Numerous foreclosures left the Enterprises with an inventory of REO properties. The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Guilty Verdict at Trial of Fannie Mae Employee and Plea of Broker in REO Scheme, California</b> |                                 |   |                   |
|--|---------------------------------|---|-------------------|
| <b>Defendant</b>   | <b>Role</b>                     | <b>Most Recent Action</b>   | <b>Date</b>       |
| Shirene Hernandez  | Fannie Mae Sales Representative | Found guilty at trial on charges of wire fraud and deprivation of honest services.                                  | February 13, 2019 |
| Peter Michno   | REO Broker                      | Charged by information and pled guilty to conspiracy to commit wire fraud involving deprivation of honest services. | January 7, 2019   |

| <b>Licensed Real Estate Broker Sentenced for Fannie Mae Fraud, Florida</b> |                             |  |                  |
|--|-----------------------------|--|------------------|
| <b>Defendant</b>   | <b>Role</b>                 | <b>Most Recent Action</b>  | <b>Date</b>      |
| Hollie Dustin  | Licensed Real Estate Broker | Sentenced to 6 months in prison, 3 years of supervised release, and ordered to pay \$34,001 in restitution and \$34,001 in forfeiture. | December 6, 2018 |

| <b>Trial Conviction in REO Deed Fraud Scheme, Florida</b> |             |   |                   |
|---|-------------|---|-------------------|
| <b>Defendant</b>  | <b>Role</b> | <b>Most Recent Action</b>                           | <b>Date</b>       |
| Robert Tribble, Jr.                                       | Participant | Convicted at trial for organized scheme to defraud. | November 30, 2018 |

## Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession and Distressed Property Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Sentencing of Participant and Indictment of Mortgage Broker in Multi-State Deed Fraud Scheme, Texas</b> |                 |   |                   |
|--|-----------------|---|-------------------|
| <b>Defendant</b>   | <b>Role</b>     | <b>Most Recent Action</b>   | <b>Date</b>       |
| Arlando Jacobs   | Participant     | Sentenced to 51 months in prison and 5 years of supervised release.                           | March 15, 2019    |
| Clarence Roland, III   | Mortgage Broker | Charged by indictment with conspiracy to commit wire fraud affecting a financial institution. | December 12, 2018 |

| <b>11 Individuals and Three Entities Charged in National Foreclosure Relief Scheme, Ohio</b> |             |   |               |
|--|-------------|---|---------------|
| <b>Defendant</b>   | <b>Role</b> | <b>Most Recent Action</b>   | <b>Date</b>   |
| Lorin Buckner  | Owner       | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, bankruptcy fraud, bank fraud, and aggravated identity theft. | March 6, 2019 |
| Joel Harvey  | Owner       | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.  | March 6, 2019 |
| Garrett Stevenson  | Owner       | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud and bankruptcy fraud.   | March 6, 2019 |

|                             |   |   |               |
|-----------------------------|---|---|---------------|
| Damien Byrd                 | Owner   | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, bank fraud, and aggravated identity theft. | March 6, 2019 |
| Dessalines Sealy            | National Sales Director/Manager                         | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| Stacy Kay Slaughter         | Sales Director/Manager                                  | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| Marcus Mullings, Jr.        | CEO/Acquisition Director                                | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| Talia Stephen-Mullings      | Managing Member   | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| Amal Balmacoon              | CEO   | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| John Nelson                 | Chief Counsel/Director of Litigation                    | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, and bankruptcy fraud.                                  | March 6, 2019 |
| Rafiq Bashir                | National Affiliate Director/National Marketing Director | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| MVP Home Solutions          | Entity  | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |
| Bolden Pinnacle Group Corp. | Entity  | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud.                      | March 6, 2019 |

|                          |        |  |               |
|--------------------------|--------|--|---------------|
| Silverstein & Wolf Corp. | Entity | Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, wire fraud, and bankruptcy fraud. | March 6, 2019 |
|--------------------------|--------|--|---------------|

| <b>Indictment in Deed Fraud Theft Scheme, Texas</b> |             |  |               |
|---|-------------|--|---------------|
| <b>Defendant</b>                                    | <b>Role</b> | <b>Most Recent Action</b>  | <b>Date</b>   |
| Arnoldo Antonio Ortiz                               | Participant | Indicted on charges of forgery of a financial instrument, tampering with a government record, and theft of property. | March 1, 2019 |

| <b>Sentencing in \$2 Million Mortgage Fraud Scheme, California</b> |             |   |                 |
|--|-------------|---|-----------------|
| <b>Defendant</b>   | <b>Role</b> | <b>Most Recent Action</b>   | <b>Date</b>     |
| Andrew Millman   | Participant | Sentenced to 40 months in prison and ordered to pay \$126,786 in restitution. | January 7, 2019 |

| <b>Sentencing of Real Estate Agent in Scheme to Defraud Fannie Mae, Florida</b> |                   |  |                   |
|---|-------------------|--|-------------------|
| <b>Defendant</b>  | <b>Role</b>       | <b>Most Recent Action</b>  | <b>Date</b>       |
| David Morgan  | Real Estate Agent | Sentenced to 6 months of home detention, 60 months of probation, and ordered to pay \$16,271 in restitution. | November 27, 2018 |

| <b>Indictment of Business Owner/Fraudulent Bankruptcy Petition Filer, Florida</b> |                |   |                  |
|---|----------------|---|------------------|
| <b>Defendant</b>  | <b>Role</b>    | <b>Most Recent Action</b>   | <b>Date</b>      |
| Christopher Coburn  | Business Owner | Charged by superseding indictment with bankruptcy fraud and falsification of records in bankruptcy. | October 10, 2018 |

## Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Managing Director and VP of Real Estate Management Company Plead Guilty in Multi-Million Dollar Mortgage Fraud Scheme, New York</b> |                                      |  |                   |
|--|--------------------------------------|--|-------------------|
| <b>Defendant</b>   | <b>Role</b>                          | <b>Most Recent Action</b>  | <b>Date</b>       |
| Patrick Ogiony   | Managing Director                    | Charged by Information and pled guilty to conspiracy to commit bank fraud. | March 15, 2019    |
| Kevin Morgan   | VP of Real Estate Management Company | Charged by Information and pled guilty to conspiracy to commit bank fraud. | December 21, 2018 |

# Appendix J: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

| <b>Siblings Charged in Bankruptcy Estate Fraud Scheme, Illinois</b> |                             |  |                |
|---|-----------------------------|--|----------------|
| <b>Defendant</b>  | <b>Role</b>                 | <b>Most Recent Action</b>  | <b>Date</b>    |
| Robert Kowalski   | Attorney/<br>Business Owner | Charged by indictment with concealment of assets and bankruptcy fraud. | March 28, 2019 |
| Jan Kowalski  | Attorney                    | Charged by indictment with concealment of assets and bankruptcy fraud. | March 28, 2019 |

| <b>Sentencings of Owner and Finance Manager in Visa and Tax Fraud Scheme, New York</b> |                 |  |                  |
|--|-----------------|--|------------------|
| <b>Defendant</b>   | <b>Role</b>     | <b>Most Recent Action</b>  | <b>Date</b>      |
| Sowrabh Sharma   | Owner           | Sentenced to 15 months in prison and one year of supervised release. | March 27, 2019   |
| Shikha Mohta   | Finance Manager | Sentenced to 5 years of probation and ordered to pay a \$4,000 fine. | October 25, 2018 |

| <b>Business Owner Charged with Bank Fraud, Maryland</b> |                |   |                |
|---|----------------|---|----------------|
| <b>Defendant</b>  | <b>Role</b>    | <b>Most Recent Action</b>   | <b>Date</b>    |
| Mehul Khatiwala   | Business Owner | Charged by information with conspiracy to commit bank fraud and bank fraud. | March 21, 2019 |

### Sentencings of Credit Union Employees in Bank Fraud Scheme, Florida

| Defendant        | Role                  | Most Recent Action   | Date              |
|------------------|-----------------------|--|-------------------|
| Devin Williams   | Credit Union Employee | Sentenced to 12 months of probation and ordered to pay \$113,195 in restitution, joint and several.        | March 5, 2019     |
| Jamelah Martinez | Credit Union Employee | Sentenced to 5 years of supervised release and ordered to pay \$115,487 in restitution, joint and several. | December 19, 2018 |

### Couple and Business Owner Plead Guilty for Roles in Freddie Mac Foreclosure Fraud Scheme, Massachusetts

| Defendant     | Role                     | Most Recent Action  | Date              |
|---------------|--------------------------|---|-------------------|
| Joanne Murray | Real Estate Professional | Charged by information and pled guilty to conspiracy to commit mail fraud, aggravated identity theft, and tax evasion.                                  | February 11, 2019 |
| James Murray  | Business Owner           | Charged by information and pled guilty to conspiracy to commit mail fraud, aggravated identity theft, and tax evasion.                                  | February 11, 2019 |
| Talal Soffan  | Business Owner           | Pled guilty to making false statements to a federally insured financial institution, wire fraud, aggravated identity theft, conspiracy, and bank fraud. | February 5, 2019  |

### Four Charged in Alleged \$364 Million Ponzi Scheme with Over 400 Victims Nationwide, Maryland

| Defendant         | Role        | Most Recent Action   | Date            |
|-------------------|-------------|--|-----------------|
| Kevin Merrill     | Participant | Charged by superseding indictment on charges of conspiracy to commit wire fraud, wire fraud, identity theft, money laundering conspiracy, financial transactions over \$10,000 in criminally derived property, and conspiracy to obstruct justice. | January 8, 2019 |
| Jay Ledford       | Participant | Charged by superseding indictment on charges of conspiracy to commit wire fraud, wire fraud, identity theft, money laundering conspiracy, and financial transactions over \$10,000 in criminally derived property                                  | January 8, 2019 |
| Cameron Jezierski | Participant | Charged by superseding indictment on charges of conspiracy to commit wire fraud and wire fraud.  | January 8, 2019 |
| Amanda Merrill    | Participant | Charged by superseding indictment with conspiracy to obstruct justice.   | January 8, 2019 |

### Former Business Owner Sentenced to 17 Years in Federal Prison for Bank Fraud of More Than \$49 Million, Maryland

| Defendant  | Role                  | Most Recent Action   | Date              |
|------------|-----------------------|--|-------------------|
| Mark Gaver | Former Business Owner | Sentenced to 17 years in prison, 3 years of supervised release, and ordered to pay \$48,774,308 in restitution and \$49,215,606 in forfeiture. | December 13, 2018 |

### Pastor and Co-Conspirators Indicted for Scheme to Defraud FHLBank Affordable Housing Program, South Carolina

| Defendant         | Role                                 | Most Recent Action                     | Date              |
|-------------------|--------------------------------------|--|-------------------|
| Tommy Quick       | Pastor/Non-Profit Executive Director | Charged by indictment with conspiracy. | December 12, 2018 |
| Isaac Quick       | Non-Profit Program Manager           | Charged by indictment with conspiracy. | December 12, 2018 |
| John Bagwell, Jr. | General Contractor                   | Charged by indictment with conspiracy. | December 12, 2018 |

### Sentencing and Trial Conviction in \$1 Million Fictitious Car Loan Scheme, North Carolina

| Defendant          | Role        | Most Recent Action   | Date              |
|--------------------|-------------|--|-------------------|
| Brian Lyles        | Participant | Sentenced to 15 months in prison, 3 years of supervised release, and ordered to pay \$674,974 in restitution, joint and several.                         | November 28, 2018 |
| Kimberlie Flemings | Participant | Convicted at trial on charges of conspiracy to commit wire and bank fraud, wire fraud affecting financial institutions, and financial institution fraud. | October 16, 2018  |

### Restitution Ordered in Mortgage Refinancing Ponzi Scheme, Ohio

| Defendant    | Role           | Most Recent Action                         | Date             |
|--------------|----------------|--|------------------|
| Erick Parker | Business Owner | Ordered to pay \$1,229,773 in restitution. | October 16, 2018 |

### Former CEO and Chief Loan Officer of Failed Sonoma Valley Bank and Attorney Ordered to Pay Restitution for Bank Fraud and Other Crimes, California

| Defendant     | Role                      | Most Recent Action   | Date            |
|---------------|---------------------------|--|-----------------|
| Sean Cutting  | Former CEO                | Ordered to pay \$19,196,000 in restitution, joint and several. | October 4, 2018 |
| Brian Melland | Former Chief Loan Officer | Ordered to pay \$19,196,000 in restitution, joint and several. | October 4, 2018 |
| David Lonich  | Attorney                  | Ordered to pay \$19,196,000 in restitution, joint and several. | October 4, 2018 |

# Appendix K: Glossary and Acronyms

## Glossary of Terms

**Bankruptcy:** A legal procedure for resolving debt problems of individuals and businesses; specifically, a case filed under one of the chapters of Title 11 of the U.S. Code.

**Conservatorship:** A legal procedure for the management of financial institutions for an interim period during which the institution's conservator assumes responsibility for operating the institution and conserving its assets. Under the Housing and Economic Recovery Act of 2008, the Enterprises were placed into conservatorships overseen by FHFA. As conservator, FHFA has undertaken to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. FHFA also has assumed the powers of the boards of directors, officers, and shareholders; however, the day-to-day operational decision making of each company is delegated by FHFA to the Enterprises' existing management.

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

**Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail," to protect the American taxpayer by ending bailouts, and to protect consumers from abusive financial services practices.

**Fannie Mae:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Fannie Mae supplies

funds to lenders so they may make loans to home buyers.

**Federal Home Loan Bank System:** The FHLBanks are 11 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or "advances") to their member banks but do not lend directly to individual borrowers.

**Fiscal Year 2019:** OIG's FY 2019 covers October 1, 2018, through September 30, 2019.

**Foreclosure:** A legal process used by a lender to obtain possession of a mortgaged property in order to repay part or all of the debt.

**Freddie Mac:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

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

**Housing and Economic Recovery Act of 2008:** Legislation that established FHFA and OIG. HERA also expanded Treasury's authority to provide financial support to the regulated entities and enhanced FHFA's authority to act as conservator or receiver.

**Inspector General Act of 1978:** Legislation that authorized establishment of offices of inspectors general, "independent and objective units" within federal agencies, that: (1) conduct and supervise audits and investigations relating to the programs and

operations of their agencies; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of agency programs and to prevent and detect fraud, waste, or abuse in such programs and operations; and (3) provide a means for keeping the head of the agency and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

**Inspector General Reform Act of 2008:** Legislation that amended the Inspector General Act to enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

**Internal Control:** A process effected by an entity's oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) operations—effectiveness and efficiency of operations; (2) reporting—reliability of reporting for internal and external use; and (3) compliance—compliance with applicable laws and regulations. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of resources.

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

**Real Estate Owned:** Foreclosed homes owned by government agencies or financial institutions, such as the Enterprises or real estate investors. REO homes represent collateral seized to satisfy unpaid mortgage loans. The investor or its representative must then sell the property on its own.

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

**Senior Preferred Stock Purchase Agreements:** Entered into at the time the conservatorships were created, the PSPAs authorize the Enterprises to request and obtain funds from Treasury, among other matters. Under the PSPAs, the Enterprises agreed to consult with Treasury concerning a variety of significant business activities, capital stock issuance, dividend payments, ending the conservatorships, transferring assets, and awarding executive compensation.

**Servicers:** Intermediaries between mortgage borrowers and owners of the loans, such as the Enterprises or mortgage-backed securities investors. Servicers collect the borrowers' mortgage payments, remit them to the owners of the loans, maintain appropriate records, and address delinquencies or defaults on behalf of the owners of the loans. For their services, they typically receive a percentage of the unpaid principal balance of the mortgage loans they service. The recent financial crisis put more emphasis on servicers' handling of defaults, modifications, short sales, and foreclosures, in addition to their more traditional duty of collecting and distributing monthly mortgage payments.

**Short Sale:** The sale of a mortgaged property for less than what is owed on the mortgage.

**Straw Buyer:** A person whose credit profile is used to serve as a cover in a loan transaction. Straw buyers are chosen for their ability to qualify for a mortgage loan, causing loans that would ordinarily be declined to be approved. Straw buyers are often paid a fee for their involvement in purchasing a property and usually do not intend to own or occupy the property.

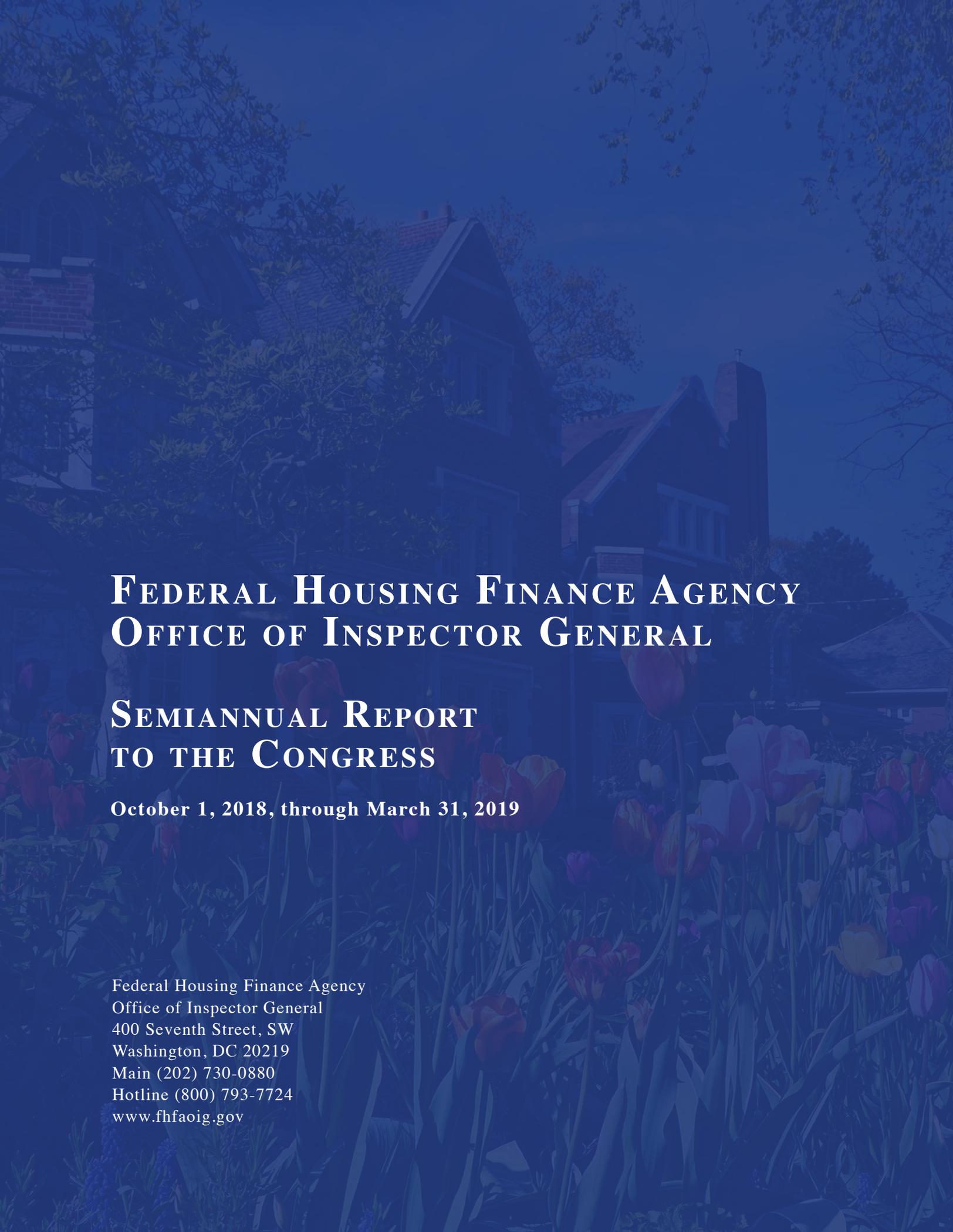
**Underwriting:** The process of analyzing a loan application to determine the amount of risk involved in making the loan. It includes a review of the potential borrower's creditworthiness and an assessment of the property value.

**Upfront Fees:** One-time payments made by lenders when a loan is acquired by an Enterprise. Fannie Mae refers to upfront fees as "loan level pricing adjustments" and Freddie Mac refers to them as "delivery fees."

## Acronyms and Abbreviations

|                    |   |                |   |
|--------------------|---|----------------|---|
| <b>Agency</b>      | Federal Housing Finance Agency                                | <b>FHFA</b>    | Federal Housing Finance Agency  |
| <b>Blue Book</b>   | Quality Standards for Inspection and Evaluation               | <b>FHLBank</b> | Federal Home Loan Bank  |
| <b>CEO</b>         | Chief Executive Officer                                       | <b>FIRREA</b>  | Financial Institutions Reform, Recovery, and Enforcement Act            |
| <b>CIGFO</b>       | Council of Inspectors General on Financial Oversight          | <b>FISMA</b>   | Federal Information Security Modernization Act of 2014                  |
| <b>CIGIE</b>       | Council of the Inspectors General on Integrity and Efficiency | <b>FSOC</b>    | Financial Stability Oversight Council                                   |
| <b>CSP</b>         | Common Securitization Platform                                | <b>FY 2019</b> | Fiscal Year 2019  |
| <b>DBR</b>         | Division of Federal Home Loan Bank Regulation                 | <b>GAGAS</b>   | Generally Accepted Government Auditing Standards                        |
| <b>DER</b>         | Division of Enterprise Regulation                             | <b>GAO</b>     | Government Accountability Office  |
| <b>DOC</b>         | Division of Conservatorship                                   | <b>HERA</b>    | Housing and Economic Recovery Act of 2008                               |
| <b>DOJ</b>         | Department of Justice   | <b>HUD-OIG</b> | Department of Housing and Urban Development Office of Inspector General |
| <b>DTI</b>         | Debt-to-income  | <b>IG</b>      | Inspector General   |
| <b>EIC</b>         | Examiner-in-Charge  | <b>IRS-CI</b>  | Internal Revenue Service-Criminal Investigation                         |
| <b>Enterprises</b> | Fannie Mae and Freddie Mac                                    | <b>IT</b>      | Information Technology  |
| <b>FBI</b>         | Federal Bureau of Investigation                               | <b>LTV</b>     | Loan-to-value   |
| <b>FDIC</b>        | Federal Deposit Insurance Corporation                         | <b>MBS</b>     | Mortgage-Backed Securities  |
|                    |   | <b>MLIS</b>    | Mortgage Loan Integrated System   |

|             |  |                      |  |
|-------------|--|----------------------|--|
| <b>MRA</b>  | Matter Requiring Attention                                 | <b>SA</b>            | Special Agent  |
| <b>NMDB</b> | National Mortgage Database                                 | <b>SEO</b>           | Senior Executive Officer   |
| <b>NIST</b> | National Institute of Standards and Technology             | <b>SGE</b>           | Senior Government Employee   |
| <b>OA</b>   | Office of Audits   | <b>SVP</b>           | Senior Vice President  |
| <b>OCom</b> | Office of Compliance and Special Projects                  | <b>TCRs</b>          | Tips, Complaints, or Referrals   |
| <b>OE</b>   | Office of Evaluations                                      | <b>The Standards</b> | The Standards of Ethical Conduct for Employees of the Executive Branch |
| <b>OI</b>   | Office of Investigations                                   | <b>Treasury</b>      | U.S. Department of the Treasury  |
| <b>OIG</b>  | Federal Housing Finance Agency Office of Inspector General |                      |  |
| <b>OGC</b>  | Office of General Counsel                                  |                      |  |
| <b>ORA</b>  | Office of Risk Analysis                                    |                      |  |
| <b>OSC</b>  | U.S. Office of Special Counsel                             |                      |  |
| <b>PII</b>  | Personally Identifiable Information                        |                      |  |
| <b>PIV</b>  | Personal Identity Verification                             |                      |  |
| <b>PMO</b>  | Project Management Office                                  |                      |  |
| <b>PSPA</b> | Senior Preferred Stock Purchase Agreement                  |                      |  |
| <b>REO</b>  | Real Estate Owned  |                      |  |
| <b>RMBS</b> | Residential Mortgage-Backed Securities                     |                      |  |
| <b>ROE</b>  | Report of Examination                                      |                      |  |



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2018, through March 31, 2019

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