

Federal Housing Finance Agency
Office of Inspector General



**Update on FHFA's Implementation
of its Revised Procedures for
Overseeing the Enterprises'
Single-Family Mortgage
Underwriting Standards and
Variances**

Compliance Review • COM-2018-003 • March 27, 2018



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March 27, 2018

Executive Summary

In a March 22, 2012, audit report, the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) recommended that FHFA strengthen its credit risk oversight by establishing a formal policy by which to review the Enterprises' single-family mortgage underwriting standards and variances to those standards. The Agency agreed to our recommendation. In 2013, its Office of Housing and Regulatory Policy (OHRP) adopted a formal policy and process that included standards for reviewing the Enterprises' variance and bulk transfer activities, as well as proposed new and revised mortgage selling policies (2013 SF Process).

In a December 2015 compliance review, we found that OHRP did not follow most of the procedures in the 2013 SF Process for its review of variances and bulk transfers. We also found that neither Enterprise submitted proposed new and revised mortgage selling policies to OHRP pursuant to the standard announced in the 2013 SF Process. Instead, each Enterprise relied on its own interpretation of FHFA's 2012 Revised Letters of Instruction (2012 RLOI) to determine which mortgage selling policies to submit to OHRP for review. Their differing interpretations resulted in disparate numbers of mortgage selling policies submitted to OHRP by the Enterprises. Both Enterprises ignored FHFA's policy; one by submitting everything, and the other by the paucity of its submissions. As we reported, OHRP advised us that the small number of submissions from one Enterprise limited OHRP's visibility into that Enterprise's single-family underwriting standards and risks. Therefore, we reopened the recommendation from our 2012 audit report.

On June 30, 2016, FHFA submitted to us a completion of corrective action memorandum (CCA) in response to the reopened recommendation. FHFA reported that the 2013 SF Process had been revised with an effective date of June 30, 2016, and would be implemented between July 1, 2016, and December 30, 2016 (2016 SF Process). FHFA subsequently notified us that it developed a revised process in March 2017 (the 2017 SF Process) which, it stated, corrected the oversight deficiencies identified in our 2015 compliance review and 2012 audit. We undertook this compliance review in September 2017 to validate the effectiveness of these remedial actions.

According to the Senior Associate Director (head) of OHRP, she explained the submission standard in the 2016 SF Process to the Enterprises but they persisted in following their prior interpretations of the 2012 RLOI. She reported to us that she made FHFA's Division of Conservatorship (DOC) well aware of the challenges and frustrations caused by one Enterprise's continued insistence on submitting mortgage selling policies pursuant to its interpretation of the 2012 RLOI. DOC represented to us in writing that it took



COM-2018-003

March 27, 2018

no action to secure the Enterprises' adherence to the submission standard in the 2016 SF Process. We found no evidence that either DOC or the Division of Housing Mission and Goals (DHMG) (the division to which OHRP reports) sought to timely resolve the matter by a targeted revision of the 2012 LOI in 2016 to the FHFA Director.

The head of OHRP further explained that the 2017 SF Process incorporates the standard for Enterprise submissions of proposed new and revised mortgage selling policies contained in FHFA's Policy Engagement Model (PEM), a standard which OHRP introduced to the Enterprises when it issued the 2016 SF Process. According to the head of OHRP, the PEM establishes the "rules of the road" for Enterprise engagement with FHFA on policy matters. We also found that OHRP and DHMG provided the PEM to the Enterprises in June and October 2017, and again in January 2018.

According to OHRP, one Enterprise is now submitting proposed new and revised mortgage selling policies in the spirit of the PEM standard. OHRP reported to us that the other Enterprise does not consider itself bound by the new PEM standard. In our view, the problem we identified in 2015 persists: the mortgage selling policy submissions from one Enterprise have remained too few to provide OHRP with full visibility into that Enterprise's single-family underwriting standards and risks.

The PEM submission standard has also been incorporated by reference into FHFA's Revised Letters of Instruction to the Enterprises, issued in December 2017 (2017 RLOI) which FHFA projects will become effective on March 31, 2018. The head of OHRP told us that she expects the Enterprises to follow the PEM submission standard after the 2017 RLOI becomes effective. Following the PEM submission standard would, in OHRP's view, give it full visibility into both Enterprises' single-family underwriting standards and risks.

We tested OHRP's review of variances and bulk transfers from March through August 2017 and found that OHRP followed its 2017 SF Process.

While FHFA has delegated to the Enterprises the responsibility to create and revise mortgage selling policies, it has repeatedly recognized that full visibility into the Enterprises' single-family underwriting practices is needed to effectively oversee the risks associated with them. According to the Enterprises' Forms 10K for 2016, the unpaid principal balance (UPB) of the Enterprises' combined single-family portfolios was over \$4.6 trillion; Fannie Mae's UPB was \$2.8 trillion, and Freddie Mac's UPB was \$1.8 trillion.



COM-2018-003

March 27, 2018

Because effective credit risk oversight requires full visibility into the selling policies governing portfolios of this size, FHFA has promulgated standards instructing the Enterprises which selling policies and variances to submit for its review. However, nearly six years since the issuance of our 2012 audit report, FHFA continues to lack full visibility into one Enterprise's single-family underwriting practices and risks. In our view, FHFA's failure to require the Enterprises to comply with its submission standards from February 2013 until the end of 2017, and its continued lack of full visibility into one Enterprise's single-family underwriting policies, raises serious questions about the effectiveness of FHFA's oversight of this area and the significant risks associated with it.

For these reasons, this record provides an insufficient basis on which to close the outstanding recommendation.

This report was prepared by Karen E. Berry, Senior Investigative Counsel; Gregg M. Schwind, Attorney Advisor; and Wesley M. Phillips, Senior Policy Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov.

Richard Parker

Deputy Inspector General for Compliance & Special Projects

TABLE OF CONTENTS

EXECUTIVE SUMMARY2

ABBREVIATIONS6

BACKGROUND7

 Basis for the Requirement for the Enterprises to Submit Mortgage Selling Policies to FHFA7

 FHFA Actions Since 2015.....9

 Actions Regarding Mortgage Selling Policy Submissions9

 Actions Regarding Bulk Transfers and Variances.....11

COMPLIANCE REVIEW RESULTS.....11

 1. FHFA did not require the Enterprises to follow the submission standard for proposed new and revised mortgage selling policies in the 2016 SF Process and until December 2017 did not require the Enterprises to follow the PEM submission standard.....12

 2. OHRP believes that the Enterprises will comply with the new submission standard at some point in the future.....13

 3. OHRP followed its 2017 SF Process for reviewing Enterprise variance and bulk purchase activity from April 2017 through August 2017.....14

CONCLUSION.....14

OBJECTIVE, SCOPE, AND METHODOLOGY15

APPENDIX: FHFA MANAGEMENT RESPONSE16

ADDITIONAL INFORMATION AND COPIES17

ABBREVIATIONS

2012 RLOI	Revised Letters of Instruction dated November 2012
2013 SF Process	Single-Family Policy Review and Escalation Process dated February 2013
2016 SF Process	Single-Family Review Process dated June 30, 2016
2017 RLOI	Revised Letters of Instruction dated December 18, 2017
2017 SF Process	Single-Family Policy Review Process dated March 2017
CCA	Completion of Corrective Action
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
Head	Senior Associate Director of OHRP
LOI	Letters of Instruction
OHRP	Office of Housing Regulatory Policy
OIG	Federal Housing Finance Agency Office of Inspector General
PEM	Policy Engagement Model
RLOI	Revised Letters of Instruction
Procedures	Procedures for Implementing the Conservatorship Decision Protocols dated November 2012
Protocols	Conservatorship Decision Protocols dated November 2012
UPB	Unpaid Principal Balance

BACKGROUND

Basis for the Requirement for the Enterprises to Submit Mortgage Selling Policies to FHFA

Since September 2008, the Enterprises have operated under the conservatorship of FHFA. Since then, the conservatorships have been run according to Letters of Instruction (LOI) issued to the Enterprises by FHFA. The 2008 LOI delegated to the Enterprises the authority to conduct certain activities, and imposed upon them certain specific obligations. One such delegation of authority concerned establishment and revision of single-family underwriting standards and variances to those standards.

In March 2012, we issued an audit in which we concluded that FHFA should strengthen its oversight of the Enterprises' single-family mortgage underwriting standards and variances to them. FHFA agreed with our recommendation to establish a formal process¹ by which to review the Enterprises' management of this delegated activity.²

In November 2012, FHFA issued revised LOI (2012 RLOI). Part C of the 2012 RLOI requires the Enterprises to notify FHFA of "any planned changes in business processes or operations, including changes to Enterprise single-[] family credit policies . . . that management has determined in its reasonable business judgment to be significant." Changes to the Enterprises' single-family mortgage selling policies fall within Part C. Where management of an Enterprise deems a proposed new or revised mortgage selling policy to be significant, Part C of the 2012 RLOI requires that Enterprise give timely notice to FHFA, prior to its implementation.

In November 2012, FHFA also issued Conservatorship Decision Protocols (Protocols) and its Procedures for Implementing the Conservatorship Decision Protocols (Procedures).³ The Procedures charged OHRP with responsibility for "taking the lead" in reviewing Enterprise notifications under Part C and keeping the Conservator apprised of, among other things, "various policy. . . initiatives." The Protocols established a procedure to be used by the Enterprises to provide timely notice of proposed changes to single-family mortgage selling

¹ Our prior recommendations, the Agency's responses, and the Agency's actions have all used the words "policy," "procedure," and "process" at various times. Any distinctions in meaning among these terms are not relevant to this report.

² See FHFA-OIG, *FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards* (Mar. 22, 2012) (AUD-2012-003).

³ FHFA's Procedures for Implementing the Conservatorship Decision Protocols also define the roles and responsibilities of FHFA's divisions and offices in the decision-making process regarding requests for conservator approval.

policies, and the Procedures authorized OHRP to supplement this procedure with more specific guidelines.

In February 2013, pursuant to the authorization in the Protocols, OHRP issued the Single-Family Policy Review and Escalation Process (2013 SF Process). It set forth guidelines by which OHRP would review proposed new and revised single-family mortgage selling policies, variances, and bulk transfers. In the 2013 SF Process, OHRP explained that it would review mortgage selling policies presented at the Enterprises' business and risk committees because they generally represented higher credit, operational, and/or headline risk.⁴ Prior to adoption of the 2013 SF Process, OHRP gave both Enterprises a written PowerPoint presentation and accompanying memoranda that explained the submission requirements in the 2013 SF Process for proposed new and revised mortgage selling policies.

We conducted a compliance review and reported our findings in December 2015.⁵ In our compliance report, we explained that, according to OHRP, its review of the Enterprises' proposed new and revised single-family mortgage selling policies submitted under the 2013 SF Process would enable FHFA to develop an understanding of the Enterprises' single-family credit risks and provide it an opportunity to identify, and help ensure the remediation of, any unsafe and unsound practices.

OHRP reported to us that the submission requirement in the 2013 SF Process had become unworkable at some point after the Process issued when the Enterprises' reorganized their risk management groups, and that OHRP did not update the submission requirement to reflect the Enterprises' reorganizations. At that time, OHRP advised us that it understood that neither Enterprise was complying with the unworkable submission requirement in the 2013 SF Process, and that each Enterprise was submitting proposed new and revised mortgage selling policies pursuant to its own interpretation of Part C of the 2012 RLOI. During the 15-month compliance review period, we learned that one Enterprise submitted the entire universe of its proposed new and revised mortgage selling policies, totaling 52, and the other elected to submit only those five policies that its management considered to be "significant." OHRP reported to us that the few submissions from one Enterprise limited OHRP's "visibility" into that Enterprise's single-family credit policies and underwriting standards and risks.

We also found that OHRP failed to review both variances and bulk transfers as envisioned by the 2013 SF Process.

⁴ Based on our review of the 2013 SF Process and FHFA's representations that employees were in place to implement it, we closed the recommendation from our March 2012 audit on February 21, 2013.

⁵ See FHFA-OIG, *Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances* (Dec. 16, 2015) (COM-2016-001).

As a result of our compliance review, we reopened the recommendation from our 2012 audit report – that DHMG formally establish a policy for its review process of underwriting standards and variances, including escalation of unresolved issues reflecting potential lack of agreement.

FHFA Actions Since 2015

Actions Regarding Mortgage Selling Policy Submissions

Following our 2015 compliance review, FHFA submitted to us a CCA in response to the reopened recommendation. FHFA reported in the CCA that the 2013 SF Process had been revised with an effective date of June 30, 2016, and would be implemented between July 1, 2016, and December 30, 2016 (2016 SF Process). The 2016 SF Process contained a new mortgage selling policy submission standard.

The head of OHRP told us that she explained the revised submission requirement in the 2016 SF Process to the Enterprises but both Enterprises continued to follow their interpretations of Part C of the 2012 RLOI. She also advised us that she sought to persuade the Enterprise that submitted fewer policies to follow the submission standard in the 2016 SF Process, without success. Moreover, she reported that she had made DOC well aware of the challenges and frustrations caused by that Enterprise’s persistence in adhering to its interpretation of the 2012 RLOI submission standard.

FHFA officials reported to us that, beginning in September 2016, they began to discuss with both Enterprises a comprehensive policy governing FHFA’s engagement with them—the PEM. The draft PEM included the new mortgage selling policy submission standard first introduced in the 2016 SF Process. The draft PEM evolved from the fall of 2016 to March 2017, in part based on feedback from the Enterprises.

On January 26, 2017, FHFA notified us by email that it was not going to meet its “original due date” of December 16, 2016, for implementation of the 2016 SF Process, and extended the date to April 21, 2017, explaining that “completion of the recommendation’s actions are taking longer than originally expected.” On April 21, 2017, FHFA submitted another CCA to us. In it, FHFA explained that DHMG, the division to which OHRP reports, determined that further refinements to the 2016 SF Review Process for mortgage policies, bulk transfers, and variances were needed, which resulted in the issuance of a revised single-family policy review process (2017 SF Process).

The head of OHRP reported to us that OHRP viewed the 2017 SF Process as an “internal” document that set forth the steps OHRP was to take in reviewing Enterprise submissions. She stated that she had not given the Enterprises a copy of the 2017 SF Process and that she had

not briefed the Enterprises on the content of it. The 2017 SF Process incorporates the submission standard for mortgage selling policies set forth in the PEM.

On June 13, 2017, the head of OHRP emailed the Enterprises a “draft final” memorandum from the Deputy Director of DHMG entitled “Implementing the Policy Engagement Model,” to which the PEM was appended. In her accompanying email, she stated that the PEM submission standard was “nothing new . . . and simply articulates how we interact today.” As noted above, the PEM’s single-family policy submission standard is substantially the same as the one contained in the 2016 SF Process, which the Deputy Director of DHMG approved in June 2016.

The attached “draft final” memorandum explained that the “objective of the PEM is to ensure transparency” of the Enterprises’ single-family credit policies and to enable FHFA to engage in “active surveillance and monitoring.” It also stated that the PEM, including the standard for submission of proposed new and revised single-family mortgage selling policies, would become effective on July 1, 2017, and noted that “many of your teams have already begun operating using the PEM.”

The head of OHRP characterized the PEM as the “rules of the road” for engagement between the Enterprises and FHFA on a number of different policy issues, including the mortgage submission standard. According to her, Enterprise compliance with the new PEM standard would enable OHRP to develop the best visibility into the Enterprises’ single-family underwriting standards and risks. Based on materials produced by FHFA, it appears that representatives from OHRP and DHMG again presented the PEM standard to the Enterprises in October 2017. DOC staff attended that meeting.

The head of OHRP reported to us, during the last quarter of 2017, that one Enterprise had persisted in following its interpretation of the 2012 RLOI, notwithstanding the fact that OHRP had worked to persuade it to submit its proposed new and revised mortgage selling policies in accordance with the 2016 SF Process and the PEM standard. According to her, this Enterprise’s interpretation of the 2012 RLOI has led it to continue to submit a low number of such policies and, as a result, OHRP continues to lack full visibility into that Enterprise’s single-family underwriting standards and risks. While she advised us in September 2017 that the other Enterprise continued to follow its interpretation of the 2012 RLOI and was submitting all of its mortgage selling policies, she reported to us several weeks later that this Enterprise was now submitting policies in the spirit of the PEM standard.

OHRP stated that, in its view, the only way to ensure Enterprise compliance with a submission standard for mortgage selling policies was to incorporate that standard into the revised LOI. FHFA completed its process of revising the 2012 RLOI and issued the revised LOI to the Enterprises on December 18, 2017 (2017 RLOI). FHFA officials reported to us

that they anticipated that the 2017 RLOI would become effective on March 31, 2018. The 2017 RLOI incorporates by reference the PEM and its new mortgage selling policy submission standard.⁶

Actions Regarding Bulk Transfers and Variances

OHRP’s 2017 SF Process sets out how the Agency will review variances and bulk transfers, now called “bulk purchases.”⁷ The review processes for the two are virtually identical:

- Each month, OHRP analysts review Enterprise reports on variance and bulk purchase activity and summarize them, highlighting trends and any concerns they may present.
- The summaries are reviewed within OHRP and submitted to the Deputy Director, DHMG, for her review and approval.
- Trends and concerns that require follow-up are monitored, tracked, reviewed by an OHRP supervisor, and closed upon resolution.
- DHMG escalates matters of concern to DOC and/or the FHFA Director for consideration, resolution, or further action and final resolution.

COMPLIANCE REVIEW RESULTS

In this compliance review, we sought to determine whether FHFA corrected the oversight deficiencies we identified in our 2015 compliance review. Specifically, we assessed whether FHFA required the Enterprises to follow the new standard set forth in the 2016 SF Process and, later, the PEM for submission of proposed new and revised mortgage policies and whether OHRP reviewed the Enterprises’ variances and bulk purchases under the standard set forth in its 2017 SF Process. Our findings follow.

⁶ On January 3, 2018, the Deputy Director of DHMG sent the Enterprises a memorandum to which the PEM was attached explaining that it would become effective on the same date as the 2017 RLOI, “with full compliance expected no later than March 31, 2018.” The single-family policy submission standard in the version of the PEM attached to the memorandum was identical to that contained in the versions provided to the Enterprises in June and October 2017.

⁷ OHRP changed the term “bulk transfers” to “bulk purchases” in the 2017 SF Process. In addition, OHRP subsequently revised the 2017 SF Process. In June 2017, it made what it called “minor updates,” the most significant of which, according to OHRP, is that OHRP will review bulk purchases on a quarterly basis instead of a monthly basis. We accounted for this change in our verification testing.

1. FHFA did not require the Enterprises to follow the submission standard for proposed new and revised mortgage selling policies in the 2016 SF Process and until December 2017 did not require the Enterprises to follow the PEM submission standard.

FHFA, as conservator of both Enterprises since 2008, has the authority to require the Enterprises to submit any or all of their proposed new and revised mortgage selling policies to OHRP for its review. A senior official in DOC advised us that she was aware, by the end of 2014, that each Enterprise was interpreting the submission requirement in the 2012 RLOI differently, which resulted in disparate practices between the Enterprises in their submissions of proposed new and revised mortgage selling policies. FHFA was put on notice of the issue in December 2015 when our compliance report issued.

According to the head of OHRP, she made DOC well aware of the challenges and frustrations caused by the Enterprises' failures to follow the 2013 SF Process and 2016 SF Process. DOC knew, or should have known, of the delta between the Enterprises' submissions and the reasons for that delta as of December 2015. However, according to the Acting Deputy Director of DOC, the disparate practices in mortgage selling policy submissions was "DHMG's issue," and he was not aware that either DHMG, or OHRP, which reports to DHMG, asked DOC for assistance. DOC reported to us in writing that it does "not have a directive issued after 2015 requiring either Enterprise to submit mortgage selling policies to OHRP" in accordance with the submission standard in the 2016 SF Process or in the PEM.

DOC, DHMG, and OHRP had prior experience in securing a revision to the 2012 RLOI. With assistance from DOC, DHMG and OHRP recommended a proposed revision to the standard under which the Enterprises are required to submit proposed mortgage servicing rights transfers to OHRP for its review. The proposed revision was approved and DOC notified the Enterprises of that revision to the 2012 RLOI by email on May 11, 2016.⁸

Plainly, by December 2015, DHMG, OHRP, and DOC were aware that the Enterprises were relying on their different interpretations of the 2012 RLOI in determining which proposed new and revised mortgage selling policies to submit and could have promptly remediated the problem by proposing revisions to amend the 2012 RLOI. They did not. Instead, it was left to OHRP to persuade the Enterprise to follow the submission standard for mortgage selling policies in the 2016 SF Process and, later, the PEM. The results are clear: to date, one Enterprise has continued to submit mortgage selling policies based on its interpretation of

⁸ See *OIG, Compliance Review of FHFA's Review Process for Transfers of Enterprise Mortgage Servicing Rights* (Feb. 6, 2018) (COM-2018-001) (online at www.fhfa.ig.gov/Content/Files/MSR%20Transfers%20-%20COM-2018-001.pdf).

the 2012 RLOI, which has continued to deprive OHRP of full insight into that Enterprise's single-family underwriting standards and risks.

DOC elected to incorporate the PEM standard into the 2017 RLOI, which will not become effective until March 31, 2018.⁹

While FHFA has delegated to the Enterprises the responsibility to create and revise mortgage selling policies, it has repeatedly recognized that full visibility into the Enterprises' single-family underwriting practices is needed to effectively oversee the risks associated with them. FHFA has instructed the Enterprises on what single-family underwriting policies and variances they are to submit, and one Enterprise continues to ignore those instructions.

According to the Enterprises' Forms 10K for 2016, the unpaid principal balance (UPB) of the Enterprises' combined single-family portfolios was over \$4.6 trillion; Fannie Mae's UPB was \$2.8 trillion, and Freddie Mac's UPB was \$1.8 trillion. Effective credit risk oversight requires full visibility into the selling policies governing portfolios of this size. Nearly six years since the issuance of our 2012 audit report, FHFA has elected to take no action to require the Enterprises to follow any of the three submission standards promulgated since February 2013, and FHFA continues to lack full visibility into one Enterprise's single-family underwriting practices and risks.

2. OHRP believes that the Enterprises will comply with the new submission standard at some point in the future.

Part C of the 2017 RLOI requires the Enterprises to provide FHFA with timely notice of any significant changes to current policies on delegated matters. Unlike the 2012 RLOI, Part C of the 2017 RLOI does not specifically enumerate mortgage selling policies as policies covered by Part C. The 2017 RLOI refers to "a list of reference documents" that are a part of the 2017 RLOI, one of which is the PEM, which includes the new mortgage selling policy submission standard.

The head of OHRP told us that, in her opinion, the Enterprises would comply with the PEM submission standard after the 2017 RLOI became effective. This, in turn, would enable OHRP to gain full visibility into both Enterprises' single-family underwriting standards and risks.

⁹ According to a DOC official, each Enterprise has submitted to FHFA a required plan to implement the 2017 RLOI and the Agency anticipates that the 2017 RLOI will be implemented by March 31, 2018.

3. OHRP followed its 2017 SF Process for reviewing Enterprise variance and bulk purchase activity from April 2017 through August 2017.

We reviewed documents created and maintained by OHRP relating to OHRP’s review of variance and bulk purchase activity for the five-month period after the 2017 SF Process issued. For this limited period, we found that OHRP and DHMG followed the review procedures in the 2017 SF Process¹⁰ with a few non-material exceptions.¹¹

CONCLUSION.....

While FHFA has delegated to the Enterprises the responsibility to create and revise mortgage selling policies, it has repeatedly recognized that full visibility into the Enterprises’ single-family underwriting practices is needed to effectively oversee the risks associated with them. According to the Enterprises’ Forms 10K for 2016, the unpaid principal balance (UPB) of the Enterprises’ combined single-family portfolios was over \$4.6 trillion; Fannie Mae’s UPB was \$2.8 trillion, and Freddie Mac’s UPB was \$1.8 trillion. Effective credit risk oversight requires full visibility into the selling policies governing portfolios of this size.

Nearly six years since the issuance of our 2012 audit report, FHFA continues to lack full visibility into one Enterprise’s single-family underwriting practices and has elected to take no action to require that Enterprise to follow any of the three submission standards promulgated since February 2013. In our view, FHFA’s continued lack of full visibility into one Enterprise’s single-family underwriting policies, and its persistent failure to require the Enterprises to follow its instructions in this area, raise serious questions about the effectiveness of FHFA’s oversight of this area and the significant risks associated with it.

For these reasons, this record provides an insufficient basis on which to close the outstanding recommendation.

¹⁰ We tested whether FHFA implemented the procedures in the March 2017 SF Process; however, the scope of our work did not include independently assessing the sufficiency of OHRP’s procedures or the quality of its analysis.

¹¹ For example, records of 11 issues closed during our review period reflect the head of OHRP’s agreement with the Policy Analyst’s closure recommendation but not the agreement of the Policy Analyst’s intermediate supervisor. In another case, Agency records reflect that the Deputy Director of DHMG reviewed and signed-off on a variance analysis memorandum although the presentation and discussion of the variances for the month in question did not occur due to scheduling conflicts.

OBJECTIVE, SCOPE, AND METHODOLOGY

On September 18, 2017, the OIG Office of Compliance and Special Projects initiated this status review to assess FHFA’s actions and determine whether to close the recommendation first made in the March 2012 OIG report and subsequently reopened in the December 2015 OIG report. We selected our first review period of April 21, 2017, through August 31, 2017, to obtain assurances through testing that FHFA had indeed implemented the 2017 SF Process with respect to its Variances, Waivers, and Exceptions and Bulk Purchase Transactions requirements. In our testing, we requested and reviewed relevant documentation to confirm that FHFA had implemented the requirements and we also interviewed Agency officials.

We also discussed with OHRP and DOC officials any steps the Agency has taken to resolve the disparity between Enterprise mortgage selling policy submission practices. Further, we reviewed the Enterprises’ total mortgage selling policy submissions data from December 2015 to September 2017 to identify trends occurring in such submissions since our December 2015 compliance review report.¹²

On March 15, 2018, we provided a draft of this report to FHFA for its review and comment. On March 19, 2018, FHFA provided technical comments, which we incorporated as appropriate. On March 26, 2018, FHFA provided its management response, which is set forth in its entirety at Appendix A.

¹² In this status review, we did not perform testing to determine whether FHFA followed the requirements set forth in the 2017 SF Process for reviewing the policy submissions because that was not a deficiency identified in the 2015 compliance review report.

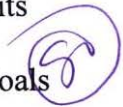
APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Richard Parker, Deputy Inspector General for Compliance and Special Audits

FROM: Sandra L. Thompson, Deputy Director, Division of Housing Mission and Goals 

SUBJECT: Management Response to the Draft Report: *Update on FHFA's Implementation of Its Revised Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances*

DATE: March 23, 2018

Thank you for the opportunity to provide a response to the Office of Inspector General (OIG) draft report: *Update on FHFA's Implementation of Its Revised Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances*.

Since 2012, the Division of Housing Mission and Goals and its Office of Housing Regulatory Policy (OHRP) have worked to increase the Federal Housing Finance Agency's (FHFA) awareness and visibility into the Enterprises' single-family mortgage credit activity. OHRP developed and implemented a revised Single-Family Review Process document, and issued a policy directive to clarify expectations and standards surrounding policy issue submissions. OHRP also successfully worked with the Enterprises to increase the discussions, reporting, and monitoring of Variances, Waivers, and Exceptions, as well as bulk purchase transactions, as acknowledged in OIG's draft report.

OHRP has also worked with the Division of Conservatorship (DOC) since 2016 to implement the Policy Engagement Model (PEM) to further clarify and standardize the methods by which the Enterprises will engage with and report to OHRP. OHRP has attempted to remedy the disparity in mortgage selling policy issue reporting between Fannie Mae and Freddie Mac by issuing the PEM. The PEM was designed to foster consistency in reporting and to increase transparency into both Enterprises' single-family mortgage selling policies and policy-related issues. OHRP discussed the development and implementation of the PEM with both Enterprises and worked with DOC to include the PEM in the 2017 Revised Letter of Instruction (RLOI). FHFA issued the RLOI in January 2018, with an effective date of March 31, 2018. OHRP expects that both Enterprises will standardize their policy submission practices and will be compliant with the RLOI.

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