



Audit and Evaluation Plan

Office of Inspector General
Federal Housing Finance Agency



Overview

On July 30, 2008, the Federal Housing Finance Agency (FHFA or Agency) was established by the Housing and Economic Recovery Act of 2008 (HERA).¹ Specifically, HERA abolished two existing Federal agencies, the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board, and in their place created FHFA to regulate the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the Enterprises), the Federal Home Loan Banks (FHLBanks), and the FHLBanks' fiscal agent, the Office of Finance (collectively, the Government Sponsored Enterprises or GSEs).

FHFA's mission is to: provide effective supervision, regulation, and oversight of the GSEs; promote their safety and soundness; support housing finance, affordable housing, and community development goals; and facilitate a stable and liquid mortgage market.

The Enterprises purchase mortgages from lenders and either package them into mortgage-backed securities (MBS) that are sold to investors or hold them in their portfolios. By doing so, the Enterprises' actions promote liquidity in the housing finance system. The FHLBank System issues debt and each of the 12 FHLBanks makes secured loans known as advances to their members, such as banks or thrifts. Their members can use the advance proceeds to originate additional mortgages.

Since September 2008, FHFA also has been the conservator of the Enterprises. FHFA placed the Enterprises into conservatorships out of concern that their deteriorating financial conditions would destabilize the financial markets. At that time, the U.S. Department of the Treasury (Treasury) agreed to provide them with substantial financial support. As of March 2013, the Enterprises under their conservatorships have received \$187.5 billion in Treasury support pursuant to senior preferred stock purchase agreements (PSPAs) with each of them. In October 2012, FHFA estimated that Treasury's total investment could range from \$191 billion to \$209 billion through 2015. Further, in recent years several FHLBanks have faced significant financial and operational challenges.

FHFA Office of Inspector General

The FHFA Office of Inspector General (FHFA-OIG) was established by Section 1105 of HERA, which amended the Inspector General Act of 1978.² The mission of FHFA-OIG is to: promote the economy, efficiency, and effectiveness of FHFA programs; prevent

¹ Public Law No. 110-289

² Public Law No. 95-452

and detect fraud, waste, and abuse in FHFA programs; and seek sanctions against, and civil and criminal prosecutions of, those responsible for such fraud, waste, and abuse. FHFA-OIG provides independent and objective reporting to FHFA’s Acting Director, Congress, and the American people through audits, evaluations, surveys, and investigations.

To guide FHFA-OIG, the Inspector General has prioritized the development of this comprehensive Audit and Evaluation Plan. FHFA-OIG does not publicly disclose its investigative plan due to the sensitive nature of its investigations.

FHFA-OIG Office of Audits

The Office of Audits provides audit and related services covering the programs and operations of FHFA. Through its performance audits and attestation engagements, the Office of Audits seeks to promote economy, efficiency, and effectiveness in the administration of FHFA programs; detect and deter fraud, waste, and abuse in FHFA activities and operations; and ensure compliance with applicable laws and regulations.

Under the Inspector General Act, inspectors general are required to comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. These standards, referred to as Generally Accepted Government Auditing Standards, are prescribed in the *Government Auditing Standards*, commonly referred to as the “Yellow Book.” The Office of Audits performs its audits and attestation engagements in accordance with the Yellow Book.

FHFA-OIG Office of Evaluations

The Office of Evaluations reviews, studies, and analyzes FHFA programmatic and operational activities and provides independent and objective analyses to FHFA. It also assists FHFA by developing recommendations designed to resolve significant deficiencies in the effectiveness or efficiency of FHFA programs and operations and preventing fraud, waste, and abuse.

The Inspector General Reform Act of 2008³ requires inspectors general to adhere to professional standards developed by the Council of the Inspectors General on Integrity and Efficiency. Evaluation standards are prescribed in its *Quality Standards for Inspection and Evaluation*, commonly referred to as the “Blue Book.” The Office of Evaluations performs its evaluations in accordance with the Blue Book.

³ Public Law No. 110-409

FHFA-OIG Office of Policy, Oversight, and Review

The Office of Policy, Oversight, and Review provides advice, consultation, and assistance across FHFA-OIG concerning the organization's priorities and the scope of its evaluations, audits, and other published reports. In addition, the Office of Policy, Oversight, and Review conducts special studies and produces reports and white papers in accordance with the Blue Book.

FHFA-OIG Audit and Evaluation Planning Processes

In order to meet the requirements of the Inspector General Act of 1978 (as amended), the Yellow Book, and the Blue Book, FHFA-OIG has established an ongoing and dynamic planning process⁴ focusing on the areas of greatest risk to FHFA and the GSEs. FHFA-OIG's Audit and Evaluation Plan⁵ enables it to address these risks and ensure transparency and accountability in the Agency's programs and operations, including the Agency's regulation of the GSEs. FHFA-OIG identifies subjects that should be surveyed, audited, or evaluated through a variety of means, including discussions with FHFA and GSE executives, the public, Congress, and other government officials; reviews of relevant reports and documents prepared by FHFA and external parties; risk assessments performed in key areas related to FHFA's mission; and matters referred to FHFA-OIG through its Hotline.

Key Areas of FHFA-OIG Audit and Evaluation Focus

FHFA-OIG's Audit and Evaluation Plan is organized around three aspects of FHFA's and the GSEs' operations that also reflect FHFA-OIG's priorities as follows:

- First, it prioritizes FHFA's management of the Enterprises' conservatorships as well as the Agency's general oversight of them. FHFA-OIG prioritizes Enterprise issues given the magnitude of Treasury's investments in them to date, continuing concerns about the effectiveness of their risk management, their dominant role in the housing finance system, and uncertainty about their future structures.
- Second, FHFA-OIG will ensure that it allocates sufficient resources to assess FHFA's oversight of the FHLBanks. The FHLBank System is important, among other reasons, because it has more than \$700 billion in debt outstanding that is potentially taxpayer

⁴ The *Quality Standards for Federal Offices of Inspector General*, issued in January 2011, and adopted by the Council of Inspectors General on Integrity and Efficiency, addresses the importance of conducting an annual evaluation planning process to identify and prioritize potential work.

⁵ This plan is dynamic. It is neither final nor all inclusive. It does not include, for example, audits or evaluations that FHFA-OIG may undertake pursuant to requests from FHFA, Congress, and other stakeholders, or situations to which FHFA-OIG's attention may be drawn as a result of its ongoing activities. FHFA-OIG will work closely with the Government Accountability Office and other inspectors general to ensure that its planning process continues to include risk-based coverage of government-wide programs.

guaranteed and in recent years has faced a number of challenges. In particular, several FHLBanks have faced substantial losses due to risky investments during the housing boom, and FHLBank System advances have plummeted in recent years, which has challenged the System and raised questions about its future role in the housing finance system.

- Finally, FHFA-OIG prioritizes assessments of FHFA's management of its internal operations and their effectiveness.

FHFA-OIG is constantly reassessing its priorities based upon risk in an effort to ensure that its limited resources are put to their optimal use. This Audit and Evaluation Plan may change in accordance with these reassessments.

FHFA-OIG Audit and Evaluation Plan

Within the three key areas of focus mentioned above, FHFA-OIG will review several broad subject areas. The broad areas in which FHFA-OIG will concentrate its efforts include:

- **Conservatorship Management** – Assessments of the process by which FHFA approves actions related to the Enterprises' conservatorships. These efforts also include the methods employed by FHFA to balance its multiple roles and missions and to identify and manage potential operational conflicts associated with them. Further, these assessments include FHFA's efforts to mitigate Enterprise losses, which ultimately accrue to U.S. taxpayers.
- **Credit Risk Management** – Assessments of FHFA's oversight of credit loss mitigation activities by the GSEs, including, underwriting, mortgage repurchase practices, and loss mitigation programs such as the implementation of the Home Affordable Refinance Program and the Home Affordable Mortgage Program.
- **Interest Rate Risk Management** – Assessments of FHFA's oversight of the processes by which the GSEs manage and mitigate the inherent risks of their business operations that are due to the fluctuation of interest rates. These efforts include the use of derivatives investments for hedging purposes.
- **Operational Risk Management** – Assessments of FHFA's oversight of the controls used by the GSEs to reduce the potential of losses due to inadequate or failed internal processes, people, or systems, and fraudulent, wasteful, or abusive activities in their programs or operations.

- **Housing Mission and Goals** – Assessments of FHFA’s oversight of its regulated entities’ efforts to ensure the liquidity of the secondary mortgage market, meet housing goals set under HERA, and provide assistance to homeowners under the Emergency Economic Stabilization Act of 2008.⁶
- **Mortgage Servicing** – Assessments of FHFA’s oversight of the Enterprises’ controls used to manage effectively their relationships with contracted servicers, which are responsible on behalf of the Enterprises for collecting mortgage payments, maintaining loan records, administering escrow accounts for taxes, and determining when to modify or foreclose upon delinquent loans.
- **Real Estate Owned (REO)** – Assessments of FHFA’s oversight of the Enterprises’ controls over their operations involving foreclosed properties.

FHFA-OIG also expects to continue to work with law enforcement partners, whistleblowers, and other parties to detect and eliminate fraud, waste, and abuse.

⁶ Public Law No. 110-343

Conservatorship Management and Enterprise Oversight Issues



Conservatorship Management

- **FHFA’s Oversight of the Enterprises’ Executive and Senior Professional Compensation Programs:** This evaluation will follow up on FHFA-OIG’s March 2011 evaluation report on FHFA’s oversight of executive compensation at the Enterprises. Specifically, this evaluation will provide an assessment of the Enterprises’ compensation of approximately 90 senior executives and 2,000 senior professionals, including Vice Presidents and Directors. The evaluation will also assess selected aspects of FHFA’s oversight of the Enterprises’ compensation, such as a March 2012 initiative that is intended to lower executive compensation.
- **FHFA’s Oversight of the Common Enterprise Securitization Platform:** This report will assess the oversight mechanisms that are built into FHFA’s planned securitization platform and will seek to minimize the potential for fraud, waste, abuse, inefficiency, and any threats to the integrity of the security platform’s operations.
- **2012 Amendments to the PSPAs:** On August 17, 2012, Treasury and FHFA announced that they had amended the PSPAs, disposing of the 10% dividend in favor of a dividend comprised of a so-called “income sweep” of the Enterprises. The amendments also accelerate the Enterprises’ reduction of their mortgage assets, along with other small changes. This study will examine and describe the details and the implications of the amendments, focusing on the reformulation of the dividend for FHFA, the Enterprises, and taxpayers.
- **FHFA’s Oversight of Risk-Sharing Transactions:** FHFA identified risk-sharing securitization transactions as a critical component of its February 2012 Strategic Plan for Conservatorship. FHFA’s 2013 Scorecard asks the Enterprises to “demonstrate the viability of multiple types of risk transfer transactions involving single family mortgages.” This study will examine FHFA’s guidance and oversight, the Enterprises’ implementation, the Enterprises’ overall governance and risk management strategies, and the implications of the transactions.
- **FHFA’s Oversight of the Enterprises’ Retained Portfolio Reductions:** FHFA has sought to contract the Enterprises’ presence in the marketplace through reductions of their retained portfolios, i.e., the mortgage loans and mortgage-related securities that the Enterprises hold in their investment portfolios. Reductions of 15% per year are required

under the terms of the revised Preferred Stock Purchase Agreements, and the Agency called for sales of 5% of the Enterprises' less liquid portfolio assets in its 2013 Conservatorship Scorecard goals. This evaluation will assess the strategic planning by which the Agency determined that it should set the 5% reduction goal, as well as review the possible outcomes of the retained portfolio reductions.

- **FHFA's Oversight of Fannie Mae's and Freddie Mac's Multifamily Housing Finance Programs:** On March 31, 2013, FHFA released the 2013 Conservatorship Scorecard goals for the Enterprises. The Scorecard included a goal of reducing Enterprises' volume of new multifamily business by 10 percent relative to 2012. Per FHFA, this goal is consistent with the overall strategies for reducing Fannie Mae and Freddie Mac's presence in the multifamily housing finance market. FHFA-OIG is assessing FHFA's strategic planning in determining the 10 percent reduction goal, and the potential impact on the multifamily housing finance market.

Credit Risk Management

- **FHFA's Oversight of the Enterprises' Quality Control Processes for Underwriting Single-Family Mortgages:** The Enterprises rely on internal quality control processes to ensure that single-family residential mortgage loans purchased by them conform to established underwriting standards and guidelines. This audit will assess the adequacy of FHFA's oversight of the Enterprises' efforts to ensure that their loan sellers comply with the Enterprises' underwriting standards and guidelines.
- **FHFA's Oversight of the Enterprises' Deficiency Recovery Processes:** A deficiency is a loss incurred by an Enterprise on the sale of a foreclosed home. In some cases, such as those in which a borrower defaults on a loan despite having the funds to repay, it may make economic sense for the affected Enterprise to attempt to recover the deficiency. To assess the effectiveness of FHFA's oversight of the Enterprises' deficiency recovery processes from such borrowers, FHFA-OIG will: (1) identify best practices by comparing the Enterprises' controls for deficiency management, as well as the controls employed in the private sector; and (2) evaluate Enterprise controls for determining ability to repay deficiencies and considering past deficiencies in the purchase of new mortgage loans that will be owned or guaranteed by the Enterprises.
- **FHFA's Oversight of the Enterprises' Underwriting of Multifamily Housing Loans:** Fannie Mae and Freddie Mac are the largest financial contributors to the multifamily sector of the nation's housing market. In 2011, the Enterprises loaned \$42 billion in connection with 3,854 multifamily housing transactions. This audit will assess FHFA's supervisory oversight of the Enterprises' controls over the underwriting of multifamily housing loans.

- **FHFA’s Oversight of Enterprise Guarantee Fees:** This assignment will assess FHFA’s oversight of the Enterprises’ pricing and administration of guarantees on single-family residential mortgages. A guarantee fee (G-fee) is a charge by Fannie Mae and Freddie Mac on their MBS to guarantee that an investor who acquires the MBS from the Enterprises will receive all scheduled principal and interest payments on a particular loan until it is repaid. Given the large credit losses that the Enterprises incurred during the financial crisis, it is widely held that their G-fees were underpriced between 2002 and 2007.
- **FHFA’s Capacity to Examine the Enterprises:** This evaluation will follow up on a September 2011 report in which FHFA-OIG concluded that FHFA lacked a sufficient number of examiners to carry out its oversight responsibilities and that only 34% of the Agency’s 120 examiners were accredited, both of which posed an increased risk to the efficiency and effectiveness of Agency examinations. FHFA also initiated a significant reorganization of its examination function in early 2011, but its effectiveness was not established at the time of FHFA-OIG’s initial report. This evaluation will update the status of FHFA’s initiatives to strengthen its examination program and capacity to meet its responsibilities as conservator and regulator.
- **FHFA’s Oversight of Enterprises’ Enforcement of Compliance with Statutory Underwriting and Reporting Requirements:** The Enterprises’ Selling and Servicing Guides require sellers to comply with certain statutory mortgage/underwriting reporting requirements such as the Truth in Lending Act⁷ and Home Mortgage Disclosure Act.⁸ Sellers represent their compliance with these statutory requirements in their representations and warranties. Non-compliance can result in a repurchase by the seller. This audit will assess FHFA’s oversight of the Enterprises’ enforcement of compliance with Federal statutory requirements related to: (1) underwriting single-family residential mortgage loans; (2) ensuring proper borrower notifications and protection; and (3) reporting on real estate transactions.
- **FHFA’s Oversight of Qualifications and Performance of Appraisers and Brokers Providing Valuation Services:** The Enterprises rely upon appraisers and brokers to provide valuation services in connection with the acquisition and servicing of loans. Appraisers and brokers should be qualified, independent, and follow established standards. Pursuant to the Dodd-Frank Act,⁹ FHFA has issued interim final rules governing this area. This audit will assess FHFA’s oversight of the Enterprises’ controls over the qualifications and performance of their appraisers and brokers.

⁷ Public Law No. 90-321

⁸ Public Law No. 94-200

⁹ Public Law No. 111-203

- **FHFA’s Oversight of the Enterprises’ Short Sale Programs:** On some occasions a short sale, in which a home is sold with the lender’s consent for less than what is owed on the mortgage loan, can be a cost effective alternative to foreclosure. In 2011, the Enterprises were involved with 45,523 short sale transactions totaling \$10.5 billion. In April 2012, FHFA issued minimum standards regarding the management of short sales. This audit will assess FHFA’s oversight of the Enterprises to determine if controls are in place to ensure that short sales are being managed effectively, efficiently, and in accordance with FHFA’s standards.
- **FHFA’s Oversight of Fannie Mae’s Mortgage Insurance Claims Process:** Mortgage insurance is a credit enhancement used by Fannie Mae to manage single-family mortgage credit risk. When a mortgage falls into default, Fannie Mae is entitled to file a claim with the mortgage insurer. This audit will assess FHFA’s oversight of Fannie Mae’s policies, procedures, and practices with respect to the processing of mortgage insurance claims.
- **FHFA’s Oversight of Enterprise Controls over Sellers’ Adherence to Mortgage Underwriting Standards:** The Enterprises purchase loans from sellers, such as financial institutions, in order to increase liquidity in the mortgage market. Seller guidance is issued by the Enterprises and compliance with the Enterprises’ guidance is important to the management of related risks. Moreover, the Enterprises may hold their sellers financially responsible for losses resulting from their noncompliance. This audit will assess FHFA’s oversight of the Enterprises’ monitoring and management of mortgage sellers’ compliance with contractual obligations related to applicable underwriting standards Interest Rate Risk Management.
- **Enhancements to Underwriting Quality Controls:** In September 2012 FHFA announced changes to the Enterprises’ representation and warranty framework that are intended to increase the quality of the loans they purchase, as well as provide for more expeditious resolutions of repurchase requests. This audit will assess FHFA’s oversight of the Enterprises’ enhancements to their quality control and enforcement practices as part of the implementation of the revised representation and warranty framework.
- **Enterprise Controls over Sellers’ Verification of Income and Liabilities:** The Enterprises acquire loans from sellers that are contractually-required to have underwriting controls in place. Deficiencies in their underwriting controls may cause loan sellers to fail to detect misrepresentations by borrowers as to their assets and liabilities. This, in turn, may cause loan sellers to provide the Enterprises with non-compliant loans; and such loans may cause the Enterprises to experience losses. This audit will assess FHFA’s oversight of the Enterprises’ controls over their loan sellers’ verification of income and liabilities during the single-family loan underwriting process. It will include tests of selected sellers’ income and liability verification practices.

Interest Rate Risk Management

- **Interest Rate Risk and Derivatives:** This white paper will provide a primer on the interest rate and prepayment risks facing the GSEs, the means by which they manage these risks, and FHFA's related oversight efforts. Both an interest rate movement and a change in the mortgage prepayment rate could have a significant adverse effect upon the value of the housing GSEs' retained portfolios. The GSEs employ a variety of strategies, including derivative contracts, to reduce the potential for such adverse effects. This white paper will discuss the GSEs' use of derivatives to manage interest rate and prepayment risks and their performance in this regard, as well FHFA's oversight of this area.
- **FHFA's Oversight of the Enterprises' Human Capital Aspects of their Capital Markets Business Lines:** Collectively, the Enterprises manage some \$1.2 trillion in investments. This evaluation assesses FHFA's oversight of the Enterprises' recruitment and retention of skilled staff in their capital markets business lines, as well as the Enterprises' capacity to manage complex derivatives portfolios and other sophisticated financial instruments necessary for the maintenance of their portfolios.

Operational Risk Management

- **FHFA's Information Technology Examination Programs at the Enterprises:** FHFA conducts IT examinations in furtherance of its supervisory responsibilities. The areas it examines include the Enterprises' information technology infrastructure, operations and controls, systems development, security, disaster recovery, and business continuity. This audit will assess FHFA's examination programs at the Enterprises.
- **FHFA's Oversight of the Enterprises' Internal Audit Programs:** The Enterprises' internal audit functions are intended to provide independent, objective assurance and consulting services to their audit committees and boards of directors. It is essential to the sound governance of the Enterprises, including the ability to manage their risks and conserve their assets, that their internal auditors operate both independently and effectively. This audit will assess FHFA's oversight of the Enterprises' internal audit programs.
- **FHFA's Oversight of the Enterprises' Compliance with Master Trust Agreements Associated with Single-Family Mortgage-Backed Securities:** The Enterprises securitize mortgages and sell the resulting securities in global capital markets, generating proceeds that support future purchases from lenders. As of December 31, 2011, the unpaid principal balance of the Enterprises' guaranteed securities and mortgage loans totaled \$4.3 trillion. The trust agreements specify provisions for collecting mortgage proceeds, paying necessary expenses, and remitting to investors amounts required under contract. This audit will assess FHFA's oversight of the Enterprises' compliance with the servicing responsibilities in master trust agreements and related trust

documents associated with the issuance of single-family MBS.

Housing Mission and Goals

- **Home Affordable Refinance Program:** The Home Affordable Refinance Program (HARP) is a federal program under which homeowners who are current on their mortgage payments, but unable to secure refinancing due to a decline in the value of their homes, may secure refinancing at more favorable mortgage rates. This evaluation will provide an overview of the HARP's origins, goals, potential beneficiaries, costs, management and operational structures, and performance indicators. It will also provide a review of the program's early implementation steps and an assessment of its impact upon eligible homeowners.

Mortgage Servicing

- **FHFA's Oversight of Freddie Mac's Servicer Foreclosure Decisions:** The decision to foreclose on a defaulted single-family mortgage loan results in both economic consequences to Freddie Mac as well as personal consequences to the affected homeowner. Therefore, it is important that loan servicers fully justify their decisions to pursue foreclosure rather than alternatives such as loan modifications and short sales. In 2011, Freddie Mac servicers foreclosed on more than 120,000 loans. This audit will assess FHFA's supervision of Freddie Mac's controls over their loan servicers' decisions to proceed with foreclosure.
- **FHFA's Oversight of the Enterprises' Consumer Complaints Process:** In its prior report issued on June 21, 2011, FHFA-OIG found that FHFA did not adequately process consumer complaints. This audit will test the processing of consumer complaints related to single-family mortgages by the Enterprises and their servicers.
- **FHFA's Oversight of the Fees Collected by Servicers:** This evaluation will examine whether potential patterns exist in some of the irregularities that have been noted by the media in the mortgage servicers' handling of delinquent and foreclosed mortgages, including erroneous payments to servicers by the Enterprises, incorrect interest rate adjustments, excessive or inappropriate fees, inadequate disclosure, and other issues.
- **FHFA's Oversight of the Enterprises' Implementation of Recent Consent Orders and Settlement Agreements:** In April 2011, 14 servicers, including the Enterprises' five largest servicers, entered into consent orders with federal regulators under which the servicers are required to implement major reforms in their loan servicing operations and foreclosure practices. Further, in March 2012, the Federal Government and others reached a \$26 billion settlement agreement with the nation's five largest mortgage servicers under which the servicers must institute substantial reforms to their loan servicing and foreclosure practices. The combined effects of the consent orders and the settlement

agreement on mortgage servicing are comprehensive: their terms extend to third party vendors that provide default management or foreclosure services; and they render foreclosure a last resort by requiring servicers to determine the feasibility of other loss mitigation options before pursuing foreclosure. The audit will assess FHFA's oversight of revisions to Enterprise controls over their servicers in order to ensure servicing is performed in accordance with the consent orders and settlement agreements.

- **Compliance with Servicer Guidelines:** Each Enterprise publishes servicer guidelines that set forth the servicers' duties and responsibilities with respect to borrowers and investors across a range of issues, including solicitations to refinance or modify existing loans and servicing transfers. This evaluation will assess the Enterprises' processes for determining servicer compliance with their respective guidelines, the controls over those processes, and FHFA's oversight of this area.
- **Implementation of the Servicing Alignment Initiative:** The Servicing Alignment Initiative is one of a series of initiatives designed to improve service for borrowers, reduce financial risk to servicers, and provide flexibility for guarantors to better manage non-performing loans. This particular initiative is intended to result in consistent policies and processes for the servicing of delinquent loans owned or guaranteed by the Enterprises. This evaluation will assess FHFA's and the Enterprises' development and implementation of the Servicing Alignment Initiative.
- **The Joint Servicing Compensation Initiative:** The Joint Servicing Compensation Initiative is another in the series of FHFA initiatives designed to improve service for borrowers, reduce financial risk to servicers, and provide flexibility for guarantors to better manage non-performing loans. This evaluation will assess FHFA's and the Enterprises' development and implementation of the Joint Servicing Compensation Initiative.
- **FHFA's Oversight of the Enterprises' Servicing Transfer Activities:** The Enterprises may transfer mortgage servicing rights from one servicer to another. Such business transactions require a degree of review and due diligence by the Enterprises and, at times, FHFA. Large servicing rights transfers potentially present reputational and concentration risks and financial implications for the Enterprises. This evaluation will assess the Enterprises' management and oversight of the transfer of mortgage servicing rights between servicers and determine the extent of FHFA's involvement in and oversight of these transactions.
- **FHFA's Oversight of the Short Sales Valuation Process:** Short sales are an alternative to foreclosure under which the Enterprises may experience lower losses and borrowers avoid foreclosure. This audit will assess FHFA's oversight of the manner in which the Enterprises and certain of

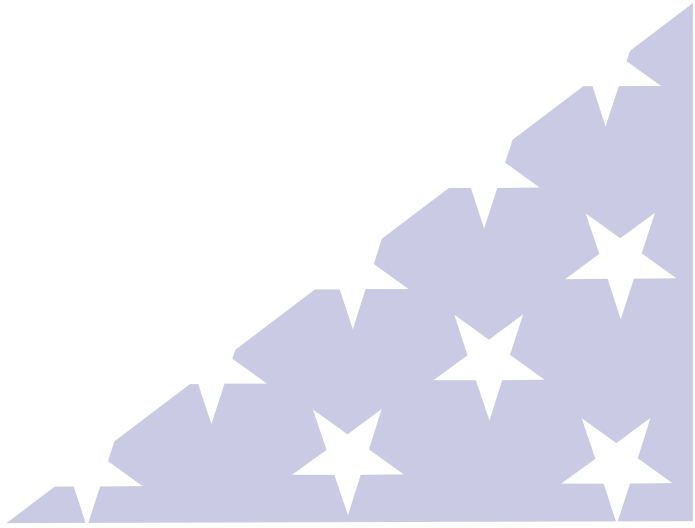
their counterparties make short sale pricing determinations. This audit will include tests of selected counterparty actions involving short sale transactions.

- **Servicer Performance Reviews:** Servicers are paid fees for performing certain functions on behalf of both Enterprises which have established controls for reviewing servicer performance and obtaining remedial actions as required. In order for such performance reviews to be effective, the servicers must provide the Enterprises with current, accurate, and complete financial and operational information. This audit will assess FHFA oversight of the Enterprises' controls for determining the reliability of servicer financial and operational information, and it will include tests of selected servicer information to determine its reliability.

Real Estate Owned

- **FHFA's Oversight of the Performance of the Enterprises' REO Contractors:** The Enterprises incurred \$8 billion in REO expenses between 2007 and 2011, including payments to contractors to secure, maintain, and sell foreclosed properties in their REO inventories. This audit will assess the adequacy of FHFA's oversight of the Enterprises' efforts to ensure their contractors' compliance with the Enterprises' servicer guidelines, and property management and marketing policies and procedures.
- **FHFA's and Fannie Mae's REO Pilot Program:** These assessments include the initial implementation of the FHFA/Fannie Mae pilot program under which foreclosed properties owned by Fannie Mae are sold in bulk rather than individually, as well as the basic structure of the program, FHFA's oversight of it, the criteria under which buyers are selected, the adequacy of the systems that verify their qualifications, the management and maintenance of REO properties, buyers' compliance with rental requirements, and financial reporting.
- **FHFA's Oversight of Enterprise Controls over Single-Family Property Inspections for REO:** The Enterprises view property inspections as essential to the successful management of their REO inventories. Property inspections are required at various points in the mortgage servicing process, including upon delinquency, in foreclosure, and while managing and disposing of REO. These inspections should determine the overall condition of the property, security of the house, occupancy status, maintenance and capital repair requirements, neighborhood conformity, and other related information. Inspectors must be qualified to perform the inspections. This study will assess FHFA's oversight of single-family property inspections at the Enterprises.
- **State and Local Redemption Laws:** This evaluation will assess the impact of redemption laws on the Enterprises' efforts to manage their REO inventories. In general, redemption laws permit homeowners to "redeem" foreclosed properties by paying off the outstanding debt within a specified time after foreclosure. These laws may

have the effect of tying up the property after foreclosure and rendering it more difficult to sell. This, in turn, results in additional carrying costs for the Enterprises as well as lost income on the mortgage. The evaluation will review the Enterprises' processes for managing properties subject to these laws with a view to determining whether improvements in the oversight of these processes could lead to cost savings and other recoveries.



FHLBank System Oversight Issues



Credit Risk Management

- **FHFA's Oversight of the FHLBank Advances to Insurance Companies:** FHLBanks can make advances to insurance companies that have a different regulatory structure than the insured depository institutions that make up the preponderance of FHLB members. This audit will assess FHFA's examinations of FHLBank advances to insurance companies to help ensure that proper controls are in place and operating effectively to manage any unique risks presented by the insurance companies.
- **Federal Home Loan Banks' Mortgage Partnership Finance Xtra program:** Under the Mortgage Partnership Finance (MPF) Xtra program, FHLBank members sell fixed rate, conforming loans to their FHLBanks. The FHLBanks aggregate these loans and sell them to Fannie Mae. As of August 2013, FHFA has authorized seven FHLBanks to offer MPF Xtra. This evaluation will examine FHFA's oversight of the MPF Xtra program and the FHLBanks' and Fannie Mae's participation in it.

Housing Mission and Goals

- **FHLBanks' Affordable Housing Programs:** Each FHLBank is required to establish an Affordable Housing Program and contribute at least 10% of its previous year's net income to the financing, purchase, construction, and/or rehabilitation of certain owner-occupied or rental housing projects. Since the inception of the Affordable Housing Program in 1990, the FHLBanks awarded over \$4 billion through their individual programs. This study will assess FHFA's oversight of the FHLBanks' administration and management of their Affordable Housing Programs.
- **FHFA's Oversight of FHLB's Mission Asset Planning Process:** FHFA's Acting Director has observed an increase in non-core mission investments on the part of FHLBanks that is coincident with a decline in their advance business, as well as their housing finance and community development activity. This audit will assess FHFA's oversight of the FHLBanks' mission asset planning process.

FHFA Internal Operations



- **FHFA's Contract No. FHF-10-F-007 with Advanced Technology Systems, Inc.:** FHFA uses contractors to provide needed goods and services in support of the Agency mission. Costs billed under these contracts should be allowable in accordance with the terms of the contract, allocable to the work performed rather than to other activities, and reasonable in amount. This audit will assess whether payments on the contractor invoices were properly supported, and goods and services conformed to contractual requirements.
- **Fiscal Year 2012 Audit of FHFA's Information Security Program Required by the Federal Information Security Management Act:** The Federal Information Security Management Act (FISMA) requires Inspectors General annually to review information security programs and practices to help ensure that the confidentiality, integrity, and availability of federal information is safeguarded. This study will assess FHFA's information security program and practices to determine whether they meet the security responsibilities outlined in the FISMA.
- **FHFA Workforce Planning:** According to GAO, strategic workforce planning addresses two critical needs: (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. This audit will assess FHFA's workforce planning activities and human capital initiatives.
- **FHFA's Information Security Program:** The Federal Information Security Management Act (FISMA) requires Inspectors General to review annually information security programs and practices to help ensure that the confidentiality, integrity, and availability of federal information are safeguarded. This audit will assess FHFA's information security program and practices to determine whether they meet the security requirements outlined in the FISMA.
- **FHFA-OIG's Information Security Program:** The Federal Information Security Management Act (FISMA) requires Inspectors General to review annually information security programs and practices to help ensure that the confidentiality, integrity, and availability of federal information are safeguarded. FHFA-OIG operates a separate network from FHFA and, therefore, is not included in the required annual audit of FHFA's information security program. Therefore, this audit will assess FHFA-OIG's information security program and practices to determine whether they meet the security requirements outlined in the FISMA.
- **FHFA's Controls to Detect and Prevent Improper Payments:** Statutory provisions established by the Improper Payments

Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the IPERA Improvement Act of 2012, require Inspectors General to determine whether their agency is in compliance with the statute each fiscal year and report such findings. This audit will assess FHFA's compliance with the applicable provisions of these statutory requirements.

- **FHFA'S Privacy Program and Implementation:** Section 522 of the Consolidated Appropriations Act of 2005 requires Inspectors General to perform periodic privacy audits to help ensure personally-identifiable information (PII) is safeguarded. This audit will assess FHFA's compliance with the Act's requirements for privacy and data protection procedures and reporting on its use of PII.
- **FHFA-OIG's Privacy Program and Implementation:** Section 522 of the Consolidated Appropriations Act of 2005 requires Inspectors General to perform periodic privacy audits to help ensure PII is safeguarded. FHFA-OIG operates a separate privacy program from FHFA and therefore is not included in the required periodic audit of FHFA's privacy program. This audit will assess FHFA-OIG's compliance with the Act's requirements for privacy and data protection procedures and reporting on its use of PII.

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

HOTLINE

To Report Suspected
FRAUD, WASTE, OR ABUSE

in FHFA Programs or Operations
(including mortgage fraud referrals involving FHFA,
Fannie Mae, Freddie Mac, and Federal Home Loan Banks)



CALL

the OIG Hotline at
1-800-793-7724

ONLINE

www.fhfaoig.gov

FAX

202-318-0358

WRITE

Federal Housing Finance Agency
Office of Inspector General
400 7th Street SW
Washington, DC 20024