

Federal Housing Finance Agency
Office of Inspector General



FHFA Has Initiatives to Advance Equity and Support for Underserved Communities, but Tracking and Documentation Need Improvement

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Executive Summary

On January 20, 2021, the President issued Executive Order (EO) 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government. EO 13985 states that the Federal Government should pursue a comprehensive approach to advance equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. It defines equity as the consistent and systematic fair, just, and impartial treatment of all individuals, including those who belong to underserved communities, who have been systemically denied full participation in economic, social, and civil life. Further, the executive order directs agencies to conduct equity assessments of select programs, consistent with applicable law and subject to the availability of appropriations, to determine whether underserved communities face systemic barriers in accessing benefits and opportunities.

EO 13985 strongly encourages independent agencies to comply with its provisions. In February 2021, the Federal Housing Finance Agency (FHFA or Agency), through its Office of General Counsel, prepared a legal memorandum which stated that as an independent agency it is not bound by the mandates and reporting requirements in EO 13985 but may voluntarily incorporate the mandates into its operations and policies. Our Office of Counsel reviewed FHFA's legal memorandum supporting its determination of applicability and concluded that the Agency's determination was reasonable.

In 2018, FHFA established the Office of Fair Lending Oversight (OFLO) within the Division of Housing Mission and Goals. OFLO works to ensure that the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the Enterprises), affiliates of the Enterprises, and the Federal Home Loan Banks, (collectively referred to as the regulated entities), operate consistently with the public interest and with sufficient overall risk management by providing fair, equitable, and nondiscriminatory access to credit and housing. OFLO also works to advance equity through its Equitable Housing Finance Program and internal policy assessments.

The objectives of our audit were to determine what initiatives FHFA has undertaken in response to EO 13985 and the extent to which those initiatives are achieving their purposes. The scope of this audit was from January 2021 through December 2022. Although FHFA is not bound by the mandates and reporting requirements in EO 13985 and OFLO personnel reported that no new initiatives were implemented in response to the executive order, OFLO identified 21 initiatives already in place to advance equity and support for



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underserved communities. Initiatives ranged from standard operating procedures for OFLO's policy and supervision-related activities to a memorandum of understanding with the U.S. Department of Housing and Urban Development on fair housing and lending coordination efforts. Appendix 1 contains a listing of these initiatives. Although these actions were not taken in response to EO 13985, they address similar purposes, namely taking actions to redress inequities in the policies and programs at FHFA and its regulated entities that serve as barriers to equal opportunity. We selected the initiatives below to assess the extent to which they are achieving their purposes. We found that OFLO's initiatives to advance equity and support for underserved communities generally complied with their stated purposes. Specifically:

- OFLO personnel perform fair lending assessments on Enterprise policies deemed to have the risk of violating fair lending laws, subject to OFLO's Fair Lending Policy Analysis Memorandum.
- The Enterprises submitted Fair Lending Reports for the quarter ending June 30, 2022, subject to FHFA's Fair Lending Reporting Orders for the Enterprises.
- The Enterprises released their Equitable Housing Finance Plans that identified barriers to sustainable housing opportunity, goals to address those barriers, and meaningful actions to address those barriers, subject to FHFA's Directive for Equitable Housing Finance Plans and Reports.

Although OFLO has initiatives to advance equity and support for underserved communities that generally complied with their stated purposes, we identified weaknesses with the Agency's efforts to: (1) track fair lending assessments timely, efficiently, and accurately for retrieval; (2) fully document its determination of the level of compliance risk and the conclusion in its compliance assessments as part of its fair lending assessments; and (3) document data quality checks performed on the Enterprises' Fair Lending Reports' underlying data.

We make three recommendations in this report to address our findings. In a written management response, FHFA agreed with our recommendations.

This report was prepared by Andrea Smith, Audit Director; Pamela L. Williams, Audit Manager; and Christopher Mattocks, Auditor-in-Charge, with assistance from Abdil Salah, Assistant Inspector General for Audits. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.



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

James Hodge, Deputy Inspector General for Audits /s/

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ABBREVIATIONS

Enterprises	Fannie Mae and Freddie Mac
EO	Executive Order
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
OFLO	Office of Fair Lending Oversight
Regulated Entities	Fannie Mae, Freddie Mac, any affiliate of Fannie Mae and Freddie Mac, and the Federal Home Loan Banks

BACKGROUND

Executive Order 13985

On January 20, 2021, the President issued EO 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.¹ This executive order states that the federal government should pursue a comprehensive approach to advance equity for all, including people of color and others historically underserved, marginalized, and adversely affected by persistent poverty and inequality. The executive order directs agencies to conduct equity assessments of select programs, consistent with applicable law and subject to the availability of appropriations, to determine whether underserved communities face systemic barriers in accessing benefits and opportunities.

EO 13985 defines equity as the consistent and systematic fair, just, and impartial treatment of all individuals. This includes individuals who belong to underserved communities denied such treatment, such as Black, Latino, Indigenous and Native Americans, Asian Americans and Pacific Islanders, and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons living in rural areas; and persons otherwise adversely affected by persistent poverty or inequality. Further, EO 13985 defines underserved communities as populations sharing a particular characteristic, as well as geographic communities, systematically denied full participation in economic, social, and civil life.

FHFA is Not Bound by Executive Order 13985

EO 13985 strongly encourages independent agencies to comply with its provisions. On February 9, 2021, FHFA, through its Office of General Counsel, prepared a legal memorandum which stated that as an independent agency it is not bound by the mandates and reporting requirements in EO 13985. The legal memorandum also makes clear that FHFA may voluntarily incorporate the executive order’s mandates into its operations and policies. Our Office of Counsel reviewed FHFA’s legal memorandum supporting its determination of applicability and concluded that the Agency’s determination was reasonable.

Fair Lending and Advancing Equity in Housing Finance

FHFA’s Strategic Plan for Fiscal Years 2022-2026 includes a goal to foster housing finance markets that promote equitable access to affordable and sustainable housing. One objective to

¹ EO 13985, [Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#) (86 FR 7009) (January 20, 2021).

achieving this goal is to advance equity in housing finance through compliance with fair lending laws and regulations.

Applicable fair lending laws include the following:

- Fair Housing Act,² which prohibits discrimination in housing, including mortgage lending, because of race, color, religion, national origin, sex (including gender identity and sexual orientation), familial status, or disability.
- Equal Credit Opportunity Act,³ which prohibits creditors from discriminating against credit applicants based on race, color, religion, national origin, sex, marital status, or age.
- Federal Housing Enterprises Financial Safety and Soundness Act⁴ – fair housing provision, which states that the Secretary of Housing and Urban Development shall, by regulation, prohibit each Enterprise from discriminating in any manner in the purchase of any mortgage because of race, color, religion, sex, handicap, familial status, age, or national origin.

FHFA's Office of Fair Lending Oversight

In 2018, FHFA established OFLO, which works to ensure that the regulated entities operate consistently with the public interest by providing fair, equitable, and nondiscriminatory access to credit and housing. OFLO conducts supervisory examinations of fair lending compliance by the regulated entities and works to advance equity through the Agency's Equitable Housing Finance Program and internal policy assessments. Additionally, OFLO obtains and publishes fair lending data to increase transparency and improve the public's understanding of the housing finance markets.

FHFA's Initiatives to Advance Equity and Support for Underserved Communities

Although FHFA is not bound by the mandates and reporting requirements in EO 13985, OFLO personnel identified 21 existing initiatives⁵ that have purposes to advance equity and support for underserved communities. OFLO personnel noted that none of their initiatives were in response to, or intended to meet the standards laid out in, EO 13985. In light of these

² Public Law 90-284 (April 11, 1968), as amended.

³ Public Law 93-495 (October 28, 1974), as amended.

⁴ Public Law 102-550 (October 28, 1992), as amended.

⁵ Appendix 1 provides a listing of these 21 initiatives.

existing initiatives and the consistency between their goals and those of EO 13985, we selected the following OFLO initiatives for review:

- **Fair Lending Assessments**: As part of the Agency’s conservator oversight, fair lending policy analysis is conducted as part of the conservator’s review of Enterprise policy changes. OFLO’s Fair Lending Policy Analysis Memorandum⁶ requires OFLO personnel to perform fair lending assessments of specific Enterprise policies deemed to have fair lending risk, including identifying violations of fair lending laws and issues that subject an Enterprise to reputational harm. A fair lending assessment is comprised of a compliance assessment⁷ and an equity assessment.⁸ As part of the Agency’s conservatorship decision-making process, OFLO personnel provide a fair lending view of a proposed Enterprise policy based on the results of the fair lending assessment, which is communicated to FHFA leadership. We selected this initiative because it is designed to ensure that policies comply with fair lending and fair housing laws and provides FHFA leadership with critical information on whether a specific policy advances equity.
- **The Enterprises’ Fair Lending Reports**: FHFA issued the Fannie Mae Reporting Order and Freddie Mac Reporting Order,⁹ which require quarterly submissions of Fair Lending Reports containing several data elements, including underwriting¹⁰ and acquisition¹¹ information categorized by race, ethnicity, age, and other protected class categories. We selected these two initiatives (presented collectively as the Enterprises’ Fair Lending Reports) because the comprehensive data collected assists FHFA to assess whether underserved communities face systemic barriers to fair lending performance. Additionally, FHFA publishes selected data provided under

⁶ OFLO, Fair Lending Policy Analysis Memorandum (June 8, 2021).

⁷ A compliance assessment assesses a policy against fair lending and fair housing laws and, according to FHFA, should determine whether there is disparate treatment or disparate impact. Disparate treatment occurs when an Enterprise treats a borrower differently based on race, color, religion, or other protected class categories or treats a property differently based on age and geographical location. Disparate impact is when a policy or practice disproportionately affects certain protected class categories or neighborhoods.

⁸ According to FHFA, an equity assessment is a formal, systematic consideration of the anticipated impact of a policy on underserved communities and individuals. It assesses, among other factors, stakeholder engagement, reputation risks, and fair housing and equity advancements.

⁹ FHFA, [Reporting Order: Enterprise Compliance and Information Submission with Respect to Fair Lending \(2021-OR-FNMA-2\)](#) (July 1, 2021); and FHFA, [Reporting Order: Enterprise Compliance and Information Submission with Respect to Fair Lending \(2021-OR-FHLMC-2\)](#) (July 1, 2021).

¹⁰ Underwriting is a risk analysis that uses information collected during the loan origination process to decide whether or not a loan is approved.

¹¹ Acquisitions refer to mortgages purchased by the Enterprises from lenders to provide liquidity, stability, and affordability to the mortgage market.

the Fair Lending Reporting Orders for the Enterprises on its website to increase transparency.¹²

- **Equitable Housing Finance Program:** FHFA’s Directive for Equitable Housing Finance Plans and Reports¹³ requires planning, goal-setting, and progress reporting by each Enterprise on its efforts to advance equity in housing finance. The Enterprises are required to identify barriers to sustainable housing opportunities, set goals to address those barriers, undertake meaningful actions to address those barriers, and report on their progress. We selected this initiative because it oversees the Enterprises’ efforts to advance equity in housing finance using the requirements stated above.

FACTS AND ANALYSIS

The objectives of the audit were to determine what initiatives FHFA has undertaken in response to EO 13985 and the extent to which those initiatives are achieving their purposes. In light of FHFA’s February 2021 legal memorandum that it is not bound by the mandates and reporting requirements in EO 13985 but may voluntarily incorporate its mandates, the audit focused on (1) the Agency’s existing initiatives that have purposes to advance equity and support for underserved communities, consistent with the goals of the executive order, and (2) the extent to which these selected initiatives are achieving their purposes.

FHFA Has Initiatives to Advance Equity and Support for Underserved Communities, but Tracking and Documentation Need Improvement

We found that OFLO has initiatives to advance equity and support for underserved communities and generally complied with their stated purposes. Specifically, we determined that:

- OFLO personnel performed fair lending assessments on Enterprise policies deemed to have the risk of violating fair lending laws, subject to OFLO’s Fair Lending Policy Analysis Memorandum.
- The Enterprises submitted Fair Lending Reports for the quarter ending June 30, 2022, subject to FHFA’s Fair Lending Reporting Orders for the Enterprises. The reports included the selected required elements, including data categorized by race, ethnicity,

¹² FHFA, [Fair Lending Data](#) (accessed March 28, 2023).

¹³ FHFA, Directive for Equitable Housing Finance Plans and Reports (September 2, 2021).

and other protected class categories, as described in the “Underwriting and Acquisition,” “Loan Purpose Reporting Categories,” and “Fair Lending Reporting Categories” sections of the orders.

- In December 2021, as part of the Equitable Housing Finance Program, the Enterprises released their Equitable Housing Finance Plans for FHFA’s review. The plans identified barriers to sustainable housing opportunities, goals to address those barriers, and meaningful actions to address those barriers, subject to FHFA’s Directive for Equitable Housing Finance Plans and Reports. In June 2022, the Enterprises released the plans to the public.

Although OFLO has initiatives to advance equity and support for underserved communities that generally complied with their stated purposes, we identified weaknesses with the Agency’s efforts to: (1) track its fair lending assessments in a manner that supports timely, efficient, and accurate retrieval; (2) fully document its determination of the level of compliance risk and the conclusion in its compliance assessments as part of its fair lending assessments; and (3) document data quality checks performed on the Enterprises’ Fair Lending Reports’ underlying data. These matters are described below.

OFLO’s Tracking Processes for Its Fair Lending Assessments Did Not Support Timely, Efficient, and Accurate Retrieval

FHFA’s Records and Information Management Policy¹⁴ requires management to maintain information, including records, to ensure timely, efficient, and accurate retrieval by authorized users when needed. Records must be complete and accurate to document the organization, functions, policies, decisions, procedures, and essential transactions of the Agency.

We found that OFLO’s tracking process for completed fair lending assessments did not support timely, efficient, and accurate retrieval. As part of our audit, we asked for the universe of fair lending assessments performed by OFLO within the scope of our audit. Instead, OFLO provided a list of policy submissions on which a fair lending assessment may or may not have been performed. While OFLO did not provide a complete and accurate universe of the fair lending assessments performed, we selected six policy submissions and requested the underlying fair lending assessments. OFLO management was unable to provide the fair lending assessments for three of the samples and stated that fair lending assessments were not performed on every policy submission. When we inquired about the discrepancy, OFLO management stated that fair lending assessments were not performed if the Enterprises

¹⁴ FHFA, [Records and Information Management Policy](#) (January 7, 2021).

either withdrew the related policy submission or the policy submission did not present material fair lending risk.

OFLO primarily relies on FHFA's Information Management System to store and manage the fair lending assessments.¹⁵ Within FHFA's Information Management System, the fair lending assessments are organized by unique identification numbers assigned to the Enterprises' policy submissions. OFLO has limited means to determine the universe of completed fair lending assessments without OFLO personnel performing a manual review of each policy submission. Additionally, OFLO personnel told us that OFLO did not have procedures in place that require a list to be maintained of all required fair lending assessments.

When we followed up on this issue, OFLO management said that our request required manual retrieval of the fair lending assessments from the Information Management System. Further, OFLO management told us that the submission to OIG did not indicate that inaccurate records were maintained. Instead, it was FHFA's best effort to comply with our documentation request. We acknowledge OFLO's efforts to clarify the universe and understand that OFLO did not have control over when an Enterprise withdraws a policy submission. This finding highlights an area that warrants improvement to minimize future challenges in retrieving records related to the Agency's fair lending assessments.

Inaccurate data could limit the Agency's ability to ensure that the data used for decision-making are accurate, complete, and timely.

OFLO Did Not Fully Document Its Determination of the Level of Compliance Risk and the Conclusion of Whether Discriminatory Practices Were Identified as Part of Its Fair Lending Assessments

OFLO's Fair Lending Policy Analysis Memorandum requires personnel to document their determination of compliance risk as part of its fair lending assessments. It also states that compliance risk depends on the likelihood of violating fair housing or fair lending requirements. As part of the compliance assessment, OFLO personnel are required to document whether disparate treatment or disparate impact was identified. While FHFA noted that instances of disparate treatment in an Enterprise policy submission are rare, the disparate impact analysis is expected to address three areas: (1) identifying adverse impacts; (2) assessing policy or business interest; and (3) identifying less discriminatory alternatives.

We found that OFLO did not fully document its determination regarding the level of compliance risk and conclusion of whether disparate treatment or disparate impact was identified as part of its fair lending assessments. We reviewed a sample of fair lending

¹⁵ FHFA's Information Management System is a records repository used by FHFA personnel for collaboration, document routing, and records retention.

assessments to determine whether personnel complied with the Fair Lending Policy Analysis Memorandum. While we found that OFLO addressed the three areas described above, OFLO did not fully document the level of compliance risk and conclusion on whether disparate treatment or disparate impact was identified in the compliance assessments. OFLO personnel said their intent was not to create a documentation requirement for the level of compliance risk. Instead, they intended to use their determinations for discussion purposes only.

The lack of complete documentation of the level of compliance risk and conclusion of whether disparate treatment or disparate impact was identified may impact OFLO's ability to provide a fair lending view on proposed Enterprise policies to support conservatorship decisions made by FHFA leadership. Further, the decision not to fully document the determinations of compliance risk leaves FHFA without complete records to support its decision-making processes if called upon by FHFA senior leadership, Congress, or other stakeholders on fair lending assessments performed.

OFLO Did Not Document Data Quality Checks Performed on the Enterprises' Fair Lending Reports' Underlying Data for the Quarter Ending June 30, 2022

FHFA's Information Quality Guidelines¹⁶ require divisions and offices to develop processes for reviewing and documenting the quality of the information disseminated to the public, including information on the Agency's website.

We found that OFLO did not document its quality checks of the Enterprises' Fair Lending Reports' underlying data for the quarter ending June 30, 2022. OFLO personnel informed us that data quality checks are performed as part of their review of the quarterly Fair Lending Reports to ensure they include required elements as outlined in the Fair Lending Reporting Orders for the Enterprises. OFLO personnel also informed us that the data are reviewed for common errors, completeness, consistent trends between reports, drastic changes in values between each delivery, and consistency with any trend analysis provided. We requested support for the data quality checks performed, but OFLO personnel could not provide any documentation for the quarter ending June 30, 2022. OFLO personnel informed us that they did not have written procedures for the data quality checks, and OFLO does not maintain standard documentation of the data quality checks. Furthermore, OFLO personnel stated that they are familiar with the data reporting template and had worked with the data for a long time. Additionally, consistent with the standard process for FHFA regular reports established by 12 U.S.C. 4514(a)(4), OFLO personnel receive a statutory certification from the Enterprises that the underlying data in the Fair Lending Reports are true and correct to the best of the certifying officers' knowledge.

¹⁶ FHFA, [Information Quality Guidelines](#) (April 2022).

In November 2022, OFLO reissued its Fair Lending & Equity Policy Analysis – Policy and Procedures. While this policy requires data quality checks, it does not describe specific procedures, nor does it establish a requirement for personnel to maintain data quality check documentation.

OFLO’s lack of documentation for required data quality checks limits the end user’s ability to rely on the quality of the information necessary to make decisions. It also increases the risk of a lack of standardization in the quality review process.

FINDINGS

- OFLO’s tracking processes for its fair lending assessments did not support timely, efficient, and accurate retrieval.
- OFLO did not fully document its determination of the level of compliance risk and the conclusion of whether discriminatory practices were identified as part of its fair lending assessments.
- OFLO did not document data quality checks performed on the Enterprises’ Fair Lending Reports’ underlying data for the quarter ending June 30, 2022.

CONCLUSIONS

FHFA identified several initiatives it says are designed to advance equity and support for underserved communities. The four initiatives we reviewed generally complied with their stated purposes. As noted above, our audit identified weaknesses in OFLO’s fair lending assessment tracking and documentation processes.

RECOMMENDATIONS

We recommend that the Associate Director, Office of Fair Lending Oversight:

1. Develop and implement a process or mechanism that improves FHFA’s ability to track and retrieve all required fair lending assessments and supporting documentation in a timely, efficient, and accurate manner.

2. Ensure that determinations of the level of compliance risk and conclusion for all fair lending assessments are documented as part of its fair lending policy assessments.
3. Update policy, procedures, and guidelines to include specific steps for performing and documenting data quality checks for the Enterprises' Fair Lending Reports.

FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA management an opportunity to respond to a draft of this audit report. FHFA management provided technical comments on the draft report, and we considered those comments in finalizing this report. FHFA management also provided a written management response, which we included as Appendix 2 to this report. In its management response, FHFA agreed with our recommendations and included the following planned corrective actions:

1. FHFA will complete revisions of its policies, procedures, and associated tools to improve the Agency’s ability to track and report on its fair lending assessments and provide documentation of the implementation of its new processes by July 31, 2023.
2. FHFA will document the determinations of the level of fair lending compliance risk for all fair lending assessments and evaluate final conclusions on the level of compliance risk through the conservatorship process by July 31, 2023, as part of its revisions of policies, procedures, and associated tools.
3. FHFA will complete the revisions of its policies and procedures to include defined steps for performing and documenting data quality checks by July 31, 2023.

We consider FHFA’s planned corrective actions responsive to our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objectives were to determine what initiatives FHFA has undertaken in response to EO 13985 and the extent to which those initiatives are achieving their purposes. The scope of this audit was from January 2021 through December 2022. In light of FHFA’s February 2021 legal memorandum that it is not bound by the mandates and reporting requirements in EO 13985 but may voluntarily incorporate its mandates, the audit focused on (1) the Agency’s existing initiatives that have purposes to advance equity and support for underserved communities, consistent with the goals of the executive order, and (2) the extent to which these selected initiatives are achieving their purposes.

To accomplish our objectives, we:

- Reviewed the Government Accountability Office, Standards for Internal Control in the Federal Government (GAO-14-704G; September 10, 2014). We determined that the control environment, risk assessment, and control activities components of internal control were significant to this objective. Specifically, we focused on the underlying principles that management should: (1) establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives; (2) define objectives clearly to enable the identification of risks and define risk tolerances; (3) design control activities to achieve objectives and respond to risks; and (4) implement control activities through policies.
- Reviewed the following relevant executive orders and laws to gain an understanding of efforts to advance racial equity and support for underserved communities:
 - EO 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government (January 20, 2021), along with the FHFA Office of General Counsel’s legal memorandum (February 9, 2021);
 - EO 13950, Combating Race and Sex Stereotyping (September 22, 2020);
 - Fair Housing Act (Public Law 90-284; April 11, 1968, as amended);
 - Equal Credit Opportunity Act (Public Law 93-495; October 28, 1974, as amended); and
 - Federal Housing Enterprises Financial Safety and Soundness Act (Public Law 102-550; October 28, 1992), as amended).

- Reviewed a prior OIG report related to FHFA’s equity initiatives: OIG, [*FHFA Could Further Combat Appraisal Bias by Ensuring That Complaints Are Filed with State Authorities and Ensuring the Enterprises Use Appraisals That Comply with Federal Law*](#) (EVL-2023-001; December 20, 2022).
- Interviewed OFLO personnel to gain an understanding of FHFA’s initiatives to advance equity and support underserved communities, including the process for implementation of its applicable policies, procedures, and guidance.
- Assessed FHFA’s fair lending policies, procedures, and guidance as follows:
 - Records and Information Management Policy (January 7, 2021);
 - Fair Lending Policy Analysis Memorandum (June 8, 2021);
 - Fair Lending Reporting Orders for the Enterprises (July 1, 2021);
 - Fair Lending Reporting Order Waiver and Guidance (August 4, 2021);
 - Directive for Equitable Housing Finance Plans and Reports (September 2, 2021);
 - Equitable Housing Finance Plans and Reports Staff Guidance (November 8, 2021);
 - Information Quality Guidelines (April 2022); and
 - Fair Lending & Equity Policy Analysis – Policy and Procedures (November 2022).
- Obtained the universe of FHFA equity initiatives for the period within the audit scope and selected a judgmental sample of four initiatives for testing based on the following purposes: (a) Fair Lending Assessments because they ensure that policies presenting a fair lending risk comply with fair lending and fair housing laws and provides FHFA leadership with critical information on whether a specific policy advances equity; (b) Fannie Mae and Freddie Mac Fair Lending Reports because these two initiatives (presented collectively as the Enterprises’ Fair Lending Reports) allow FHFA to comprehensively assess whether underserved communities face systemic barriers to fair lending performance, and (c) Equitable Housing Finance Program because it oversees the Enterprises’ efforts to advance equity in housing finance by identifying barriers to sustainable housing, setting goals to address those barriers, undertaking meaningful actions to address those barriers, and reporting on the Enterprises’ efforts and progress to advance equity.

- Selected and obtained a random sample of three fair lending assessments, comprised of its compliance and equity assessments and relevant supporting documentation, completed between June 8, 2021, and December 31, 2022. The random number generator was used for the purpose of avoiding bias and not for the purpose of projecting results across the universe of fair lending assessments. We tested the assessments to determine whether personnel followed OFLO's fair lending policy analysis guidance, including determining whether there was disparate treatment or disparate impact, documenting the determination of compliance risk, and determining whether a policy furthers fair housing and fair lending. We also confirmed whether FHFA management reviewed and approved the fair lending assessments.
- Selected and obtained the most recent Fair Lending Reports (within audit scope) for the quarter ending June 30, 2022, for each Enterprise. We tested the reports to determine whether they included the selected required data elements, including the application and acceptance counts by race, ethnicity, and other protected class categories. We also confirmed that FHFA management reviewed and approved the quarterly Fair Lending Reports.
- Obtained the interim and final versions of the inaugural Enterprise Equitable Housing Finance Plans, FHFA's review worksheets, and other supporting documentation. We tested this documentation to determine if the documents included the selected required elements. We also confirmed whether FHFA management reviewed and approved the final 2022 Enterprise Equitable Housing Finance Plans.

We conducted this performance audit from March 2022 to July 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX 1: OFLO INITIATIVES TO ADVANCE EQUITY AND SUPPORT FOR UNDERSERVED COMMUNITIES

The objectives of this audit were to determine what initiatives FHFA has undertaken in response to EO 13985 and the extent to which those initiatives are achieving their purposes. Although FHFA is not bound by the mandates and reporting requirements in EO 13985 and OFLO personnel reported that no new initiatives were implemented in response to the executive order, OFLO personnel identified 21 initiatives already in place to advance equity and support for underserved communities. The figure below lists each initiative and its purpose.¹⁷

FIGURE 1: OFLO INITIATIVES TO ADVANCE EQUITY AND SUPPORT FOR UNDERSERVED COMMUNITIES

OFLO Initiative	Purpose of Initiative
Delegation of Authority with Respect to Fair Lending Oversight	This order delegates the authority to oversee fair lending activities to the Deputy Director of the Division of Housing Mission and Goals.
Fair Lending Assessments	The assessments, comprised of a compliance and equity assessment, are performed on certain Enterprise policy submissions that present a fair lending risk in accordance with OFLO’s Fair Lending Policy Analysis Memorandum.
Fair Lending Data	FHFA publishes information on single-family automated underwriting system applications and loans acquired by the Enterprises as well as primary market lender aggregate approval rates categorized by race and ethnicity.
Fannie Mae Fair Lending Reports	FHFA receives quarterly Fair Lending Reports from Fannie Mae in accordance with the Fannie Mae Fair Lending Reporting Order. The information and data received, including statistics on race, ethnicity, and other protected class categories, are used to assess fair lending performance.
Freddie Mac Fair Lending Reports	FHFA receives quarterly Fair Lending Reports from Freddie Mac in accordance with the Freddie Mac Fair Lending Reporting Order. The information and data received, including statistics on race, ethnicity, and other protected class categories, are used to assess fair lending performance.

¹⁷ Because OIG did not select all 21 initiatives identified by the Agency, we take no position on the purpose or effectiveness of the 17 initiatives that we did not review as part of this audit.

OFLO Initiative	Purpose of Initiative
Equitable Housing Finance Program	This program requires planning, goal-setting, and progress reporting by each Enterprise on its efforts to advance equity in housing finance by identifying barriers to sustainable housing opportunity, setting goals to address those barriers, undertaking meaningful actions to address those barriers, and reporting on its progress.
FHFA Public Listening Session: Enterprise Equitable Housing Finance Plans	FHFA hosted a public listening session to allow public input and awareness about the Enterprises' Equitable Housing Finance Plans.
Request for Input: Enterprise Equitable Housing Finance Plans	FHFA issued a request for input to obtain written feedback from the public to aid the Enterprises in preparing their initial Equitable Housing Finance Plans and to aid FHFA in its oversight of the plans.
Action Plan to Advance Property Appraisal and Valuation Equity	This plan describes how federal agencies and industry stakeholders have committed to eliminating bias and advancing equity in home appraisals.
Interagency Statement on Special Purpose Credit Programs	FHFA, along with the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, U.S. Department of Housing and Urban Development, and U.S. Department of Justice, issued the interagency statement to remind creditors of the ability under the Equal Credit Opportunity Act and Regulation B to establish special purpose credit programs to meet the credit needs of specified classes of persons.
Memorandum of Understanding by and between the U.S. Department of Housing and Urban Development and FHFA Regarding Fair Housing and Fair Lending Coordination	The U.S. Department of Housing and Urban Development and FHFA entered into a memorandum of understanding to enhance effective and efficient enforcement of the Fair Housing Act and oversight of the Enterprises. The memorandum promotes interagency consultation and coordination regarding the regulated entities, prevents duplication of federal efforts, enhances oversight of the regulated entities, and supports enforcement of the Fair Housing Act.
FHFA Policy Statement on Fair Lending	This statement on fair lending communicates FHFA's general position on monitoring and information gathering, supervisory examinations, and administrative enforcement related to the Equal Credit Opportunity Act, the Fair Housing Act, and the Federal Housing Enterprises Financial Safety and Soundness Act.

OFLO Initiative	Purpose of Initiative
Request for Input: FHFA Policy Statement on Fair Lending	FHFA issued a request for input to obtain written feedback from the public on FHFA’s guidance to communicate the Agency’s general position on monitoring and information gathering, supervisory examinations, and administrative enforcement related to the Equal Credit Opportunity Act, the Fair Housing Act, and the Federal Housing Enterprises Financial Safety and Soundness Act.
Advisory Bulletin 2021-04: Enterprise Fair Lending and Fair Housing Compliance	This Advisory Bulletin communicates FHFA’s supervisory expectations and guidance to the Enterprises on fair lending compliance. Enterprise compliance with fair lending laws is part of FHFA’s obligation to further the purposes of the Fair Housing Act in its program of regulatory and supervisory oversight over the Enterprises and its responsibility to ensure the Enterprises comply with all applicable laws.
Enterprise Fair Lending and Fair Housing Compliance Examination Policies and Procedures Operating Procedures Bulletin	This bulletin establishes internal procedures to govern FHFA’s fair lending and fair housing compliance examinations of the Enterprises.
Policy and Rule Development Standard Operating Procedures	OFLO participates in the review of policies, guidance, rules, programs, initiatives, and data collection efforts (collectively, policy and rule development). This guidance documents OFLO’s procedures for developing analysis and recommendations related to policy and rule development.
Participation in Interagency Fair Lending Task Force Data and Economist Working Group	FHFA is a participating agency of the Interagency Fair Lending Task Force Data and Economist Working Group. This working group provides a forum for federal agencies engaged in fair lending and fair housing supervision, enforcement, and policy to share information and discuss programs, policy, findings, and techniques.
Interagency Comment Letter to Appraisal Standards Board	FHFA, along with the Consumer Financial Protection Bureau, U.S. Department of Housing and Urban Development, Board of Governors of the Federal Reserve System, U.S. Department of Justice, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and National Credit Union Administration provided comments on the Proposed Changes for the 2023 Edition of the Uniform Standards of Professional Appraisal Practice to help prohibit appraisal bias.

OFLO Initiative	Purpose of Initiative
Mission Report	The report describes the regulated entities' efforts to provide greater access to financing for targeted economic development and affordable, equitable, and sustainable housing.
FHFA Public Listening Session: Closing the Gap to Sustainable Homeownership	FHFA hosted a public listening session to allow public input on the strategies to reduce the racial homeownership gap and enable sustainable homeownership.
FHFA Public Listening Session: Climate Change and Natural Disaster Risk Management at the Regulated Entities	FHFA hosted a public listening session to allow public input on the current and future climate and natural disaster risk to the housing finance system and to the regulated entities, including potential impacts on lower income households in vulnerable areas and ways to mitigate these effects without undermining efforts to manage climate and natural disaster risk.

Source: OIG's interpretation of OFLO's initiatives to advance equity and support for underserved communities.

APPENDIX 2: FHFA MANAGEMENT RESPONSE

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Federal Housing Finance Agency

MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Naa Awa Tagoe, Deputy Director, Division of Housing Mission and Goals

SUBJECT: Draft Audit Report: *FHFA Has Initiatives to Advance Equity and Support for Underserved Communities, but Tracking and Documentation Need Improvement*

DATE: June 26, 2023

NAA AWAA
TAGOE

Digitally signed by
NAA AWAA TAGOE
Date: 2023.06.26
11:47:49 -04'00'

Thank you for the opportunity to respond to the Office of Inspector General's (OIG) draft report. The objective of OIG's audit review was to determine what initiatives FHFA has undertaken in response to Executive Order 13985 (Advancing Racial Equity and Support for Underserved Communities through the Federal Government) and the extent to which those initiatives are achieving their purposes. Although FHFA has initiatives to advance equity and support for underserved communities that generally comply with the objectives of the Executive Order, OIG identified weaknesses with the Agency's efforts, which are addressed in the following recommendations.

Recommendation 1: *Develop and implement a process or mechanism that improves FHFA's ability to track and retrieve all required fair lending assessments and supporting documentation in a timely, efficient, and accurate manner.*

Management Response for Recommendation 1: FHFA agrees with the recommendation. FHFA has updated its policies and procedures, and associated tools, to improve the Agency's ability to track and report on its fair lending assessments. FHFA will complete the revisions of its policies and procedures, and provide documentation of the implementation of its new processes by July 31, 2023.

Recommendation 2: *Ensure that determinations of the level of compliance risk and conclusion for all fair lending assessments are documented as part of its fair lending policy assessments.*

Management Response for Recommendation 2: FHFA agrees with the recommendation. FHFA has updated its policies and procedures, and associated tools, to ensure that determinations of the level of fair lending compliance risk is documented for all fair lending assessments and to clarify that final conclusions on the level of compliance risk are evaluated

through the conservatorship process. FHFA will complete the revisions of its policies and procedures by July 31, 2023.

Recommendation 3: *Update policy, procedures, and guidelines to include specific steps for performing and documenting data quality checks for the Enterprises' Fair Lending Reports.*

Management Response for Recommendation 3: FHFA agrees with the recommendation. FHFA has updated its policies and procedures to include defined steps for performing and documenting data quality checks. FHFA will complete the revisions of its policies and procedures by July 31, 2023.

cc: Edom Aweke
John Major
James Wylie
Leda Bloomfield

ADDITIONAL INFORMATION AND COPIES.....

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Attn: Office of Investigations – Hotline
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