

Federal Housing Finance Agency
Office of Inspector General



**DHMG's Oversight of the
Enterprises' Compliance with Duty
to Serve Requirements Was Not
Fully Effective Due to Incomplete
Evaluation Documentation and
Outdated Guidance**

Audit Report • AUD-2025-005 • August 28, 2025

..... EXECUTIVE SUMMARY

PURPOSE

The Housing and Economic Recovery Act of 2008 (HERA) established a duty for Fannie Mae and Freddie Mac (together, the Enterprises) to serve three underserved markets: (1) manufactured housing, (2) affordable housing preservation, and (3) rural housing by improving access to mortgage financing for very low-, low-, and moderate-income families (known as the Duty to Serve). Annually, the Federal Housing Finance Agency (FHFA or Agency) evaluates the Enterprises' compliance with their Duty to Serve obligations.

We conducted this audit to determine whether FHFA's Division of Housing Mission and Goals (DHMG) provided effective oversight of the Enterprises' compliance with their Duty to Serve requirements.

RESULTS

We determined that DHMG's oversight of the Enterprises' compliance with their Duty to Serve requirements lacked certain procedural safeguards necessary to ensure full effectiveness. While we found that some oversight functions were generally effective, others were not. Specifically, we found that DHMG reviewed, evaluated, and supported its determination that the Enterprises' Duty to Serve Underserved Markets Plans (Plans) for calendar years 2022 through 2024 met the Agency's standards and addressed the needs of each underserved market. Further, DHMG monitored the Enterprises' implementation of their respective Plan's objectives by preparing quarterly comprehensive monitoring reviews and performing oversight activities.

While DHMG provided oversight, it did not always document accurate and complete evaluations of the Enterprises' performance. For example, underlying support did not always match scores used to determine the annual performance rating. In addition, DHMG's internal guidance used to monitor and evaluate the Enterprises was outdated and did not fully match its current practices. As a result, there is increased risk that DHMG may not perform sufficient oversight if evaluation documentation is inaccurate or incomplete and internal guidance is not up to date.

We made three recommendations to address our findings. In a written response, FHFA management agreed with our recommendations.

This report was prepared by Andrea Smith, Audit Director; Michael Rivera, Audit Manager; Ennis Hobdy, Auditor; Jeffrey Lloyd, Auditor; and Michael Schumann, Auditor; 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. This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfa.ig.gov, and www.oversight.gov.

James Hodge
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ABBREVIATIONS

DHMG	Division of Housing Mission and Goals
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	U.S. Government Accountability Office
HERA	Housing and Economic Recovery Act of 2008
OHCI	Office of Housing and Community Investment
OIG	FHFA Office of Inspector General
Plan	Underserved Markets Plan

BACKGROUND.....

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) stipulates that the Enterprises have an obligation to facilitate the financing of affordable housing for low- and moderate-income families. HERA amended the Safety and Soundness Act to establish a duty for the Enterprises to serve very low-, low-, and moderate-income families¹ in three underserved markets: (1) manufactured housing, (2) affordable housing preservation, and (3) rural housing.² The Enterprises are required to improve the distribution and availability of mortgage financing in each of these markets. The Enterprises are also required to provide leadership to facilitate a secondary market for such mortgages by developing loan products and flexible underwriting guidelines, conducting outreach, and making loan purchases and investments. HERA also required FHFA to promulgate a regulation for evaluating the Enterprises' compliance with its Duty to Serve. Annually, FHFA is required to evaluate the Enterprises' compliance with their Duty to Serve obligations, rate their performance for each underserved market, and report the results to Congress.

On December 29, 2016, FHFA issued the final rule and regulation, Enterprise Duty to Serve Underserved Markets, in accordance with HERA. This regulation is referred to throughout this report as FHFA's Duty to Serve Regulation.³ It provides a framework for evaluating and rating the Enterprises' compliance with their Duty to Serve requirements. It also implements the statutory requirements by setting forth specific activities in each of the three underserved markets that are eligible to receive Duty to Serve credit. In addition to the regulation, FHFA issued Evaluation Guidance that provides the Enterprises with expectations for the development of their Plans, the evaluation framework, and how the Agency will communicate its assessment of their performance.⁴

FHFA's DHMG Provides Oversight of the Enterprises' Compliance with Duty to Serve Requirements

FHFA's DHMG is responsible for the oversight of the Enterprises' compliance with Duty to Serve requirements. Specifically, the DHMG Office of Housing and Community Investment (OHCI) Duty to Serve Branch reviews the Enterprises' Plans, monitors implementation, and

¹ 12 C.F.R. Part 1282 defines the parameters for very low-, low-, and moderate-income.

² Section 1129 of HERA, Pub. L. No. 110-289, amends section 1335 of the Safety and Soundness Act.

³ 12 C.F.R. Part 1282, Subpart C – Duty to Serve Underserved Markets.

⁴ FHFA's Evaluation Guidance has been revised several times since the inception of the Duty to Serve requirements. FHFA posts Evaluation Guidance to its website, which can be found at <https://www.fhfa.gov/programs/duty-to-serve/resources#EvaluationGuidance> (accessed May 23, 2025).

evaluates the Enterprises' annual compliance with Duty to Serve requirements.⁵ DHMG uses an outside firm to assist with its review of the Enterprises' Plans and annual evaluations. The outside firm assists by (a) assessing the impact of each objective in the Enterprises' Plans, (b) assigning preliminary scores for each objective during the initial review of the Plans and the annual performance evaluations, and (c) documenting its reviews. Ultimately, DHMG oversees the evaluation process, performs the final review of the objectives, and documents their evaluation conclusions regarding the Enterprises' performance. FHFA makes the final decision on all evaluations.

DHMG's Review of the Enterprises' Plans

In accordance with FHFA's Duty to Serve Regulation, each Enterprise submits a Plan that describes its intent to meet the needs of each underserved market over a three-year period.⁶ FHFA reviews the Plan to determine whether it addresses the needs of each underserved market and meets the standards set forth in its Evaluation Guidance.

As part of its review, DHMG publishes the Enterprises' proposed draft Plans and allows the public 60 days to provide input. DHMG then reviews the public input responses, assesses a draft score for each objective in the draft Plan, and provides formal comments on the draft Plans.⁷ DHMG refers to the score for each objective as a concept score, which measures the expected level of impact an objective would represent if fully achieved. The Enterprises respond to DHMG's formal comments and submit revised draft Plans. Following receipt, DHMG evaluates the extent to which the Enterprises incorporated public input and formal comments into their proposed Plans. Once the Agency is satisfied that all comments have been addressed, it provides the concept score determination for each objective in the Plans. Measured on a scale of 0 to 50, each Plan objective must receive a final concept score of 30 or more, which indicates DHMG's expectation that the work will create a meaningful impact. If a Plan meets these criteria, and the standards defined in FHFA's Duty to Serve Regulation and Evaluation Guidance, FHFA issues a Non-Objection letter for each of the three underserved markets in a Plan.⁸ A Non-Objection

⁵ As of June 26, 2025, FHFA has renamed OHCI as the Office of Affordable Housing and Community Investment.

⁶ 12 C.F.R. § 1282.32, Underserved Markets Plan.

⁷ An objective is a commitment by the Enterprise in its Plan to undertake one or more specific actions to accomplish a Duty to Serve eligible activity. Each objective is classified by the Enterprise as either: a loan purchase, investment, loan product, or outreach objective, based on the nature of the actions the Enterprise pledges to undertake.

⁸ DHMG requires three reviews from the outside firm and a final DHMG review to determine a concept score. The standards from the FHFA Duty to Serve Regulation and FHFA Evaluation Guidance include ensuring each Plan year contains a minimum number of activities for each of the three underserved markets, and the Enterprises demonstrated that it made good faith efforts to: (1) evaluate public input received, (2) incorporate the input where appropriate, and (3) incorporate formal comments DHMG provided on its proposed Plan.

letter is a written statement confirming that FHFA has determined that the Enterprises' proposed Plans meet the requirements in FHFA's Duty to Serve Regulation and the Evaluation Guidance, allowing them to proceed.

We reviewed FHFA's evaluation of the Enterprises' Plans over the three-calendar year period 2022 through 2024.⁹ We also reviewed modifications to Plan objectives for calendar years 2022 and 2023. FHFA's Evaluation Guidance describes the process for Plan modifications, which also requires that each modified objective receive a concept score of 30 or more.

DHMG's Monitoring of the Enterprises' Implementation

Once a Plan is in effect, each Enterprise implements the activities and objectives to meet the needs of the underserved market. On December 20, 2022, DHMG issued Enterprise Duty to Serve Revised Reporting Requirements and Duty to Serve Annual Reporting Protocols to the Enterprises that describe requirements for submitting quarterly and annual reports. DHMG monitors the Enterprise's progress in meeting their Plans by reviewing their quarterly reports, among other activities. Enterprises are required to submit quarterly data showing the number of loans purchased in each underserved market. DHMG also requires that if an Enterprise is not meeting certain Plan objectives, it must explain why in a written report for that quarter.

DHMG's internal Duty to Serve Quarterly Monitoring Plan requires staff to monitor quarterly reports as part of its due diligence to ensure that the Enterprises are making appropriate progress on their Plans.¹⁰ The monitoring plan enables the Agency to evaluate whether the Enterprises are either exceeding or failing to meet their objectives. As part of this monitoring, DHMG prepares quarterly dashboards and comprehensive reviews that describe and analyze the Enterprises' performance toward meeting Plan objectives.

DHMG's Annual Evaluation of the Enterprises' Duty to Serve Compliance

FHFA's Duty to Serve Regulation and its Evaluation Guidance provide a framework for DHMG's process to evaluate the Enterprises' compliance with their Duty to Serve requirements and rate their performance for each underserved market annually. DHMG also uses its Duty to Serve Evaluation Manual to perform its annual evaluations, which consists of three steps:

⁹ On November 25, 2024, FHFA issued Non-Objections to the Enterprises' Duty to Serve 2025 through 2027 Plans. These documents address Plans outside the scope of our audit.

¹⁰ Additional DHMG internal guidance used to provide oversight of the Enterprises' compliance with the Duty to Serve requirements include the Duty to Serve: Data Process (Receiving and Validating Data), Procedures (Quarterly Dashboard Production), and Procedures (Data Analysis Program and Monitoring Report).

- Step One – DHMG conducts a quantitative evaluation of whether the Enterprise achieved the objectives in its Plan.¹¹ This quantitative evaluation assesses whether the Enterprise met, partially met, or did not meet the targets and baselines established in its Plan.
- Step Two – DHMG conducts a qualitative evaluation of the impact the Enterprise achieved in meeting the needs of the applicable underserved market for each objective in its Plan.¹² This qualitative evaluation assesses the effect the Enterprise achieved in an underserved market by considering factors such as the size of the increase in loan purchases, difficulty of achieving the objective, and level of effort required. After assigning a qualitative impact score for each objective under this step and recording the final scores in a spreadsheet tracker, DHMG performs calculations to determine an overall performance score for each underserved market.
- Step Three – DHMG evaluates extra credit-eligible activities undertaken by each Enterprise. These activities are considered particularly challenging or serve a segment of a market that is relatively less well-served. The Enterprise may receive an upward adjustment to its Step Two overall performance score.

Based on Step One, DHMG determines whether the Enterprises complied with the Duty to Serve requirements.¹³ After DHMG determines that the Enterprises complied, it performs calculations under Step Two and Step Three to compute the Enterprises' final performance score for each underserved market. DHMG converts its final performance score for each of the three underserved markets into one of four annual ratings:

- Minimally Passing if the final performance score is less than 30.
- Low Satisfactory if the final performance score is 30-35.
- High Satisfactory if the final performance score is 35-40.
- Exceeds if the final performance score is equal to or greater than 40.

¹¹ DHMG assigns a score of 10, 5, or 0 to each objective based on whether the Enterprise met, partially met, or did not meet the targets and baselines established in its Plans, respectively. DHMG averages the scores for all the objectives in that market to produce an overall score for each of the three underserved markets. If an Enterprise receives a Step One overall score of at least 6.5 for an underserved market, it will be considered in compliance with its statutory Duty to Serve obligations for the market.

¹² DHMG requires three outside firm reviewers and a final Agency reviewer to assess the extent to which the Enterprises achieved an impact for each objective. DHMG assigns a score for each objective from 0 to 50. Under this scale, a score of 30 indicates meaningful impact on a need of the underserved market. DHMG refers to this score as an impact score.

¹³ An Enterprise's Step One score is not used for any other part of the evaluation and rating process.

The FHFA Director approves the final annual evaluation compliance ratings for each Enterprise based on the evaluation results prepared by DHMG staff.

OBJECTIVE AND SCOPE

We conducted this audit to determine whether DHMG provided effective oversight of the Enterprises' compliance with Duty to Serve requirements.¹⁴ The scope of this audit covered the period from January 1, 2021, through October 31, 2024. We focused on DHMG's Non-Objection letters to the Enterprises' Plans for the three calendar year period 2022 through 2024 and the Enterprises' performance of these Plans for calendar years 2022 and 2023.

For details on methodology see Appendix I.

¹⁴ Our audit focused solely on the effectiveness of DHMG's oversight. We did not assess or opine on the effectiveness of the Enterprises' Duty to Serve programs themselves, as that was outside the scope of our review.

RESULTS

We concluded that DHMG’s oversight of the Enterprises’ compliance with their Duty to Serve requirements was not fully effective. While we found that some oversight functions were generally effective, others were not. DHMG’s oversight was effective in reviewing the Enterprises’ Plans and monitoring implementation but not fully effective in evaluating the Enterprises’ performance. We noted that DHMG effectively:

- Supported its issuance of Non-Objection determinations for each market in the Enterprises’ 2022 through 2024 calendar year Plans in accordance with its Evaluation Guidance. Specifically, DHMG:
 - Supported its assigned concept score of 30 or more for all Plan objectives reviewed in our sample and obtained the required management reviews.¹⁵
 - Provided evidence that the Enterprises made good faith efforts to incorporate public feedback and formal comments on their proposed Plans to address the needs of the underserved markets.
 - Ensured the Plans met Agency standards and contained elements required by FHFA’s Evaluation Guidance, including the minimum number of statutory or regulatory activities for each underserved market and objectives classified according to the following evaluation areas: (1) loan purchase, (2) investment, (3) loan product, or (4) outreach.
 - Obtained management approvals, including the FHFA Director, for the overall issuance of Non-Objections letters to the Plans.
 - Reviewed and evaluated Plan modifications in accordance with its Evaluation Guidance for six of the seven objective modifications in our sample, including assigning a concept score of 30 or more for the objective.
- Monitored the Enterprises’ implementation of their Plan objectives for calendar years 2022 and 2023. Specifically, DHMG:
 - Obtained and posted the Enterprises’ Duty to Serve quarterly and annual performance reports to the Agency’s Duty to Serve website, as required by FHFA’s Evaluation Guidance.

¹⁵ For details of all sample selections, please see the Appendix I: Methodology section of this report.

- Met with the Enterprises to discuss their progress in meeting Duty to Serve objectives in their Plans quarterly.
- Prepared comprehensive quarterly monitoring reviews that demonstrated analysis of the Enterprises' progress in meeting its Duty to Serve requirements. Further, the reviews were approved by management, as required by DHMG's Duty to Serve Procedures.
- Conducted annual evaluations for calendar years 2022 and 2023 in accordance with FHFA's Duty to Serve Regulation or Evaluation Guidance. Specifically, DHMG:
 - Obtained Enterprise certifications from senior executive officers that loan purchase and investment information provided in their annual reports was true, correct, and complete.
 - Supported its Step One quantitative assessment and score for all 15 objectives in our sample.
 - Supported its Step Two qualitative assessment and impact score for 11 of the 15 objectives in our sample.
 - Reported information regarding the Enterprises' loan purchases and investments and overall performance ratings consistently among FHFA's Annual Housing Reports, the Annual Reports to Congress, and feedback provided to the Enterprises.

While DHMG conducted oversight activities, we found that the Agency did not always document accurate and complete evaluations of the Enterprises' performance. For example, underlying support did not always match scores used to determine the annual performance rating. This matter is discussed in detail in Finding 1. Furthermore, DHMG's internal procedures do not match its actual practices, are outdated, and lack clarity for certain oversight functions. For example, DHMG's internal guidance does not comprehensively explain how scores and ratings in its annual evaluation are reviewed and approved. This matter is discussed in detail in Finding 2. These matters increase the risk that DHMG may not perform sufficient oversight if evaluation documentation is inaccurate or incomplete and internal guidance is not up to date.

Finding 1: DHMG Did Not Always Document Accurate and Complete Evaluations of the Enterprises' Duty to Serve Plans and Performance

We noted deficiencies in DHMG's documentation of its Duty to Serve evaluations. As part of the Step Two qualitative evaluation of each objective in the Enterprises' Plans, DHMG staff uses a scoring template to document the evaluation and assign a qualitative impact score. The scoring template serves as a record for scoring decisions and includes the names of those who performed

the Step Two qualitative evaluation for each objective, the analysis, and the assigned qualitative impact score. The scoring templates are required to match and justify the final qualitative impact scores that DHMG records on its spreadsheet tracker to calculate the Enterprises' performance rating. However, we identified several gaps in the scoring templates in our sample. This included a missing justification, incomplete fields, or scores that did not match the final qualitative impact score in the spreadsheet tracker. Specifically, we found that:

- For 4 of the 15 objectives in our sample, DHMG's scoring templates did not support the final qualitative impact scores used in its 2023 annual evaluation to calculate the Enterprises' performance scores and rating. As a result, DHMG could not justify the final impact scores.
 - For one objective, the scoring template did not include a DHMG evaluation or score as required. While a final qualitative impact score was recorded in the spreadsheet tracker, DHMG staff did not preserve the documented evaluation of this score.¹⁶
 - For the remaining three objectives, the scoring template did not match the qualitative impact score in DHMG's spreadsheet tracker, limiting the ability to verify the accuracy of these scores. Further, for two of these objectives, the analysis indicated that more information was needed to make an evaluation, but the scoring template did not indicate that the information was obtained and considered. As a result, the scoring template did not document that DHMG performed a complete evaluation.¹⁷
- For one of the seven modified objectives in our sample, DHMG's scoring template did not support the final score in its spreadsheet tracker.¹⁸ This limits FHFA's ability to verify the accuracy of DHMG's final score.
- In several instances, DHMG staff did not complete all fields in the scoring templates. For example, DHMG staff did not always document sections to indicate (1) whether they had questions for the Enterprise as part of their analysis, (2) whether stakeholder input was necessary for the analysis, and (3) reviewer names or dates. This increases the risk that DHMG did not perform complete evaluations and therefore, reached inaccurate conclusions.

¹⁶ The scoring template demonstrated a review by three outside firm reviewers who assist in evaluations, but it did not include a final, required review by DHMG personnel.

¹⁷ We were able to verify that DHMG obtained and considered the additional information, but DHMG's consideration of the additional information was not documented in the scoring template.

¹⁸ For details of the sample selection, please see the Appendix I: Methodology section of this report.

- DHMG’s design of its scoring template did not reflect its current practice. Specifically, the scoring template included a section that required the reviewers to perform a calculation to determine the final impact score for each objective. However, instead of completing the calculation in the scoring template, a DHMG official stated that their practice was to perform this calculation separately in their spreadsheet tracker.¹⁹

The *Records Management by Federal Agencies* requires each Federal agency to make and preserve records containing adequate and proper documentation of the decisions of the agency.²⁰ FHFA’s *Records and Information Management Policy* states that adequate and proper documentation includes a record of agency business that is complete and accurate to the extent required to document the decisions of the agency. This policy is designed to promote access to FHFA information, including records, by FHFA employees, partners, and the public, as appropriate. In addition, DHMG’s Evaluation Manual requires the reviewers to complete scoring templates as part of their evaluation and determination of scores.²¹

A DHMG official stated DHMG did not have written review procedures in place to perform a final review or reconciliation of the scoring templates to ensure they were complete, accurate, and in agreement with the final qualitative impact scores used to evaluate and rate the Enterprises’ annual Duty to Serve performance. For scores that did not match the final qualitative impact scores recorded in the spreadsheet tracker, reviewers were responsible for updating the scoring templates after considering further information but did not. If certain fields were left blank, DHMG reviewers assumed that these sections were not applicable. The DHMG official recognized discrepancies in scoring templates and stated that changes were made for periods subsequent to our audit scope to ensure scoring templates are updated and match the final scores used to calculate the Enterprises’ annual evaluation ratings. The DHMG official also stated that the team met with FHFA’s Office of the Chief Information Officer (formerly the Office of Technology and Information Management) to discuss how to develop a better system to ensure the evaluations are complete, accurate, and supported.

DHMG’s scoring template evaluations provide the analysis and documentation necessary to support the final qualitative impact scores that are used to calculate FHFA’s final rating of the Enterprises’ Duty to Serve performance. Without adequate and proper documentation, there are no reliable records to show how qualitative impact scores were determined and that they are accurate, complete, and consistent with the final impact scores. Moreover, absent such documentation DHMG cannot fully support its evaluation and determination of the Enterprises’

¹⁹ We verified that DHMG performed this calculation in their spreadsheet tracker.

²⁰ 44 U.S.C. Chapter 31.

²¹ Separate from FHFA’s Evaluation Guidance, the DHMG Evaluation Manual documents its internal procedures to evaluate the Enterprises’ annual performance in meeting to Duty to Serve requirements.

Duty to Serve performance rating. As such, there is increased risk that DHMG may not perform sufficient oversight.

Recommendations

We recommend that the DHMG Deputy Director:

1. Review and update, as necessary, the design of all scoring templates to reflect current practices and provide clarity regarding what fields require completion.
2. Develop and implement written review and reconciliation procedures to ensure that all scoring template evaluations are complete, accurate, and correspond to the final qualitative impact scores used to rate the Enterprises' annual Duty to Serve performance.

Finding 2: DHMG's Internal Procedures for Its Oversight of the Enterprises' Compliance with Duty to Serve Requirements Are Outdated

We found several instances where DHMG's internal guidance for monitoring and evaluating the Enterprises' Duty to Serve performance did not include key oversight procedures, did not align with DHMG practices, or lacked clarity. Specifically, we found that DHMG's internal Duty to Serve guidance:

- Does not include procedures to explain its complete process for how qualitative impact scores and ratings in its annual evaluation of the Enterprises' Duty to Serve performance are reviewed and approved. Specifically, DHMG's internal guidance does not:
 - Provide for steps that are utilized in current practices. These are: (1) holding consensus meetings to finalize scores for evaluation of each objective in the Enterprises' Plans, (2) documenting the final scores in a spreadsheet tracker, and (3) documenting necessary changes to the scoring template evaluations when further information is considered to assess the Enterprise's performance after the initial completion of the template.
 - Establish reconciliation procedures to ensure scoring templates are accurate, complete, and support the final qualitative impact scores recorded on DHMG's spreadsheet tracker; these scores are used to calculate the Enterprises' annual performance ratings.

- Establish supervisory review and approval controls to ensure the accuracy of its internal calculations for the Enterprises' annual evaluations and performance ratings.²²
- Does not include procedures to govern meetings with each Enterprise on a bi-weekly and quarterly basis to monitor their Duty to Serve progress, including procedures that define (1) the purpose and frequency of the meetings and (2) requirements for communicating and documenting results from the meetings.
- Does not include procedures to clarify how it will document its submission of quarterly monitoring reviews to the Deputy Director. We found that DHMG could not provide evidence that it distributed quarterly comprehensive monitoring reviews to the Deputy Director, as required by its Duty to Serve Procedures, for three of the eight quarters in our sample.
- Contains outdated procedures that are no longer performed or need updating (because DHMG decided to focus its quarterly monitoring reviews on a simpler dashboard review and on loan purchase and investment objectives). Specifically, DHMG does not:
 - Provide a detailed narrative summary of each objective as part of its comprehensive quarterly monitoring review, as required by its Duty to Serve Quarterly Monitoring Plan.
 - Document analysis of every loan product and outreach objective as part of its second quarter comprehensive monitoring review, as required by its Duty to Serve Quarterly Monitoring Plan.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires that management (1) documents policies in the appropriate level of detail to allow management to effectively monitor the control activity; (2) communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities; and (3) periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

A DHMG official stated that the Duty to Serve team has not documented all of its procedures because the team is small and aware of its responsibilities. The official also stated that its oversight meetings with the Enterprises were not required. Despite this, the official

²² During our review of DHMG's annual evaluation of the Enterprises' compliance with Duty to Serve requirements, we identified two immaterial errors that did not impact the accuracy of DHMG's calculations but highlights the need to ensure controls are in place to ensure accuracy.

acknowledged that some of their procedures are outdated and do not match with their current practices. They are in the process of updating some of their practices for monitoring and evaluating the Enterprises' Duty to Serve requirements, and it would be appropriate to evaluate and revise their procedures after these initiatives are complete.

Failure to document policies and procedures may lead to inconsistent and insufficient oversight of the Enterprises' compliance with Duty to Serve requirements. Further, there is an increased risk that the Duty to Serve team may not (1) adequately support, review, and approve its evaluation of the Enterprises' Plans and performance, (2) efficiently perform the necessary monitoring functions, and (3) communicate accurate results to the appropriate stakeholders.

Recommendation

We recommend that the DHMG Deputy Director:

3. Revise internal written guidance for the oversight of the Enterprises' compliance with Duty to Serve requirements to incorporate up-to-date practices that include the following:
 - a. Review and approval procedures for assigning and documenting scores and ratings for evaluation of the Enterprises' Plans and performance;
 - b. Review and approval procedures to ensure that DHMG accurately calculates annual evaluation scores and ratings;
 - c. Procedures for the practice and frequency of conducting routine meetings with the Enterprises and documenting and communicating results to relevant FHFA stakeholders; and
 - d. Procedures for the documentation and submission of quarterly monitoring reviews to relevant FHFA stakeholders.

FHFA COMMENTS AND OIG EVALUATION.....

We provided FHFA management an opportunity to review and provide technical comments to a draft of this audit report. We considered those comments in finalizing this report. In a written response, FHFA management agreed with our recommendations and included the following planned corrective actions:

1. By January 31, 2026, DHMG will review and update the scoring template to reflect current practices and provide better clarity on what fields require completion and eliminate fields that are no longer necessary.

2. By March 31, 2026, DHMG will update its internal Evaluation Manual to include written procedures for the review of evaluations in the scoring templates. DHMG will also document its reconciliation procedures to ensure that all scoring template evaluations are complete, accurate, and correspond to the final qualitative impact score used to rate performance.
3. By March 31, 2026, DHMG will update its internal written procedures to include:
 - a. procedures for reviewing, approving, assigning and documenting scores and ratings;
 - b. steps that outline the review and approval process which ensures accurate calculations of scores and ratings;
 - c. procedures for the practice and frequency of conducting routine meetings with the Enterprises and documenting and communicating results to relevant FHFA stakeholders; and
 - d. documentation and submission of quarterly monitoring reviews to relevant FHFA stakeholders.

We consider FHFA's planned corrective actions responsive to the recommendations. FHFA's written response, in its entirety, is included as Appendix II to this report.

APPENDIX I: METHODOLOGY.....

To accomplish our objective, we performed the following procedures:

- Reviewed Government Accountability Office’s *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) and determined that the control activities, information, and communication components of internal control were significant to this objective. We focused on the underlying principles that management should: (1) design control activities to achieve objectives and respond to risks; (2) implement control activities through policies; (3) use quality information to achieve the entity’s objectives; and (4) externally communicate the necessary quality information to achieve the entity’s objectives.
- Reviewed the following laws, statutes, and regulations to determine the Duty to Serve requirements applicable to FHFA and the Enterprises:
 - Housing and Economic Recovery Act of 2008, Public Law No. 110-289
 - 12 U.S.C. § 4565, Duty to Serve Underserved Markets and Other Requirements
 - 12 C.F.R. § 1282, Subpart C – Duty to Serve Underserved Markets
 - 44 U.S.C. Chapter 31, Records Management by Federal Agencies
- Reviewed the following FHFA guidance to identify requirements for DHMG’s oversight of the Enterprises’ Duty to Serve requirements:
 - FHFA, Official Documents Policy (June 8, 2018)
 - FHFA, Records and Information Management Policy (Jan. 7, 2021)
 - FHFA, Order No. 5, Division of Housing Mission and Goals Delegated Authorities and Responsibilities (May 28, 2021; updated Sept. 7, 2023)
 - FHFA, Duty to Serve Evaluation Guidance 2020-4a (July 2020)
 - FHFA, Duty to Serve Evaluation Guidance 2022-5 (Jan. 24, 2022)
 - FHFA, Duty to Serve Evaluation Guidance 2022-6 (Nov. 4, 2022)
 - FHFA, *Duty to Serve Evaluation Manual*, Version 4.0, 2022-2024 Plan Cycle
 - DHMG, Duty to Serve Quarterly Monitoring Plan (Feb. 5, 2019)

- OHCI, Duty to Serve Data Process (Receiving and Validating Data) (Feb. 2019)
- OHCI, Duty to Serve Procedures (Quarterly Dashboard Production) (Feb. 2019)
- OHCI, Duty to Serve Procedures (Data Analysis Program and Monitoring Report) (Aug. 2019)
- Reviewed the following quarterly and annual reporting protocols provided by FHFA to the Enterprises to determine the Duty to Serve reporting requirements:
 - DHMG, Enterprise Duty to Serve Revised Reporting Requirements (Nov. 30, 2021; updated Dec. 20, 2022)
 - DHMG, Revised Duty to Serve Annual Reporting Protocols (Jan. 22, 2021)
 - DHMG, Enterprise Duty to Serve Annual Reporting Protocols (Dec. 20, 2022)
- Interviewed DHMG personnel to gain an understanding of DHMG’s oversight of the Enterprises compliance with Duty to Serve requirements. DHMG personnel included members of the Duty to Serve Branch: the Associate Director, Supervisory Policy Analyst, and Senior Economist responsible for overseeing and evaluating the Enterprises’ compliance with Duty to Serve requirements.
- Assessed DHMG’s guidance to determine whether it provided staff with necessary procedures to provide effective oversight of the Enterprises’ compliance with Duty to Serve requirements.
- Assessed the Enterprises’ quarterly performance reports to determine whether they were submitted timely, included required information for DHMG to assess performance, and were made public by posting them to FHFA’s Duty to Serve website as required by the FHFA Duty to Serve Regulation.
- Assessed documentation of DHMG’s review and evaluation of the Enterprises’ Duty to Serve Plans over the three-calendar year period 2022 through 2024 to determine whether DHMG issued its Non-Objection letters and provided oversight of the Plans in accordance with FHFA’s Duty to Serve Regulation and Evaluation Guidance, as applicable. Specifically, we assessed whether DHMG performed the following oversight activities prior to issuing Non-Objections: (1) provided comments on the Plans, (2) issued the Plans for public input; (3) provided evidence that the Enterprises made a good faith effort to incorporate DHMG’s comments and public input into the Plans; (4) ensured the Plans contained the required elements to enable its staff to evaluate the Enterprises’ performance; (5) obtained Enterprise certifications from a senior executive officer that the Enterprise’s historical information used to set baselines and targets in the Plan was

true, correct, and complete; and (6) documented analysis and required management approvals to support the overall issuance of Non-Objection for each of the three underserved markets.

- Assessed documentation of DHMG’s monitoring efforts of the Enterprises’ Duty to Serve performance for calendar years 2022 and 2023. Specifically, we assessed whether DHMG prepared quarterly comprehensive monitoring reviews each quarter that provided sufficient and accurate information to assess the Enterprises’ performance, were approved by management, and were issued to the DHMG Deputy Director in accordance with DHMG’s Duty to Serve Procedures.
- Selected a sample of 15 performance objectives from the 2022 and 2023 objectives in Fannie Mae’s and Freddie Mac’s Plans. The sample included 8 Fannie Mae objectives from a population of 38 (approximately 21 percent) and 7 Freddie Mac objectives from a population of 33 (approximately 21 percent).²³ We used a random sampling approach to capture broad coverage across the Enterprises’ Plans by including objectives from each of three underserved markets (i.e., manufactured housing, affordable housing preservation, and rural housing) and from each of the four objective types (i.e., loan purchase, loan product, outreach activity, or investment objective). The sampling approach was used to avoid bias and not for the purpose of projecting testing results to the population of objectives in the Enterprises’ Plans for calendar years 2022 and 2023.
 - Regarding DHMG’s oversight of the Enterprises’ development of their Plans, we reviewed documentation from the sample to determine whether (a) DHMG ensured the required level of reviews were performed to evaluate the objective (i.e., 3 outside firm reviewers and a final DHMG reviewer) and (b) DHMG’s evaluation of the objective (documented in its scoring templates) was accurate, complete, and supported its determination of the final concept score in accordance with FHFA’s Evaluation Guidance.
 - Regarding DHMG’s annual evaluations of the Enterprises’ Duty to Serve compliance for calendar years 2022 and 2023, we reviewed documentation from the sample to determine whether DHMG adequately evaluated the Enterprises’ performance for each objective and supported the determined impact score. For each objective, we assessed whether (a) the Enterprise reported information using the required reporting templates to support its progress in meeting the targets; (b) the Enterprise provided loan-level data or other information requested by DHMG to support achievement of the objective; (c) DHMG documented its rationale for

²³ We note that 13 of the 15 objectives were applicable for both the 2022 and 2023 performance period. For the remaining two objectives, one was applicable in 2022 only, and the other was applicable in 2023 only.

approving an Enterprise infeasibility request, as applicable; (d) DHMG ensured the required level of reviews were performed to evaluate the objective (i.e., 3 outside firm reviewers and a final DHMG reviewer); and (e) DHMG's analysis of the objective (documented in its Step Two Scoring templates) was accurate, complete, and supported its determination of the impact score used for the final performance ratings.

- Selected a sample of 7 objective modifications from the 2022 and 2023 modifications to Fannie Mae's and Freddie Mac's Plans. The sample included 4 Fannie Mae modifications from a population of 18 (approximately 22 percent) and 3 Freddie Mac objective modifications from a population of 15 (20 percent). We used a random sampling approach to capture broad coverage across the Enterprises' Plans by including modifications from each of the three underserved markets and from each of the four objective types. The sampling approach was used to avoid bias and not for the purpose of projecting testing results to the population of modifications in the Enterprises' Plans for calendar years 2022 and 2023. We reviewed documentation from the sample to assess whether DHMG properly reviewed and evaluated the modifications in accordance with FHFA's Duty to Serve Evaluation Guidance and obtained approval for modification decisions in accordance with FHFA's Official Document Policy.
- Assessed documentation to determine whether DHMG (a) performed accurate and complete calculations of the qualitative impact scores and performance ratings for the calendar years 2022 and 2023 annual evaluations in accordance with the Evaluation Guidance and Duty to Serve Evaluation Manual and (b) obtained the required management approvals for the final performance ratings.
- Assessed whether DHMG externally reported accurate and consistent results of its calendar years 2022 and 2023 annual evaluations among its various external reports, including, FHFA's Annual Housing Reports, Annual Reports to Congress, and feedback reported to the Enterprises.
- Assessed Enterprise quarterly presentations and DHMG quarterly and annual feedback to the Enterprises to determine whether DHMG provided oversight of (1) objectives that were not on-track during the year to meet the target and (2) objectives that were not met at the end of the year.
- Assessed the reliability of Enterprise Duty to Serve data received for this audit by determining whether (1) DHMG performed data validation procedures for each Enterprises' annual submissions for calendar years 2022 and 2023 in accordance with its internal guidance, Duty to Serve Data Process (Receiving and Validating Data), (2) DHMG obtained annual certifications from a senior executive officer from each

Enterprise for calendar years 2022 and 2023 stating that the Loan Purchase and Investment information and data provided in the Enterprise's annual report was true, correct, and complete, and (3) the Enterprises' loan-level data supported the quantities reported in the Enterprises' annual performance reports for the 8 loan and investment purchase objectives selected from the sample of 15 objectives noted previously.

We conducted this performance audit from September 2024 to August 2025, at our headquarters in Washington, D.C., 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 II: FHFA MANAGEMENT RESPONSE.....

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Federal Housing Finance Agency

MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits

FROM: Chris Bosland, Deputy Director (Acting), Division of Housing Mission and Goals

SUBJECT: Management Response for the OIG Draft Report: *DHMG's Oversight of the Enterprises' Compliance with Duty to Serve Requirements Was Not Fully Effective Due to Incomplete Evaluation Documentation and Outdated Guidance*

DATE: August 4, 2025

CHRISTOPHER BOSLAND
Digitally signed by CHRISTOPHER BOSLAND
Date: 2025.08.04 15:50:07 -0400

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft report (Report). The audit objective was to determine whether the Division of Housing Mission and Goals (DHMG) provided effective oversight of Fannie Mae and Freddie Mac's (the Enterprises) compliance with Duty to Serve requirements.

The Report concluded that while some oversight functions were generally effective, others were not. The Federal Housing Finance Agency (FHFA or Agency) agrees with the three recommendations in the Report and proposes the following corrective actions:

Recommendation 1: *DHMG review and update, as necessary, the design of all scoring templates to reflect current practices and provide clarity regarding what fields require completion.*

Management Response: The Agency agrees with the recommendation. By January 31, 2026, DHMG will review and update the scoring template to reflect current practices and provide better clarity on what fields require completion and eliminate fields that are no longer necessary.

Recommendation 2: *Develop and implement written review and reconciliation procedures to ensure that all scoring template evaluations are complete, accurate, and correspond to the final qualitative impact scores used to rate the Enterprises' annual Duty to Serve performance.*

Management Response: The Agency agrees with the recommendation. By March 31, 2026, DHMG will update its internal Evaluation Manual to include written procedures for the review of evaluations in the scoring templates. DHMG will also document its reconciliation procedures to ensure that all scoring template evaluations are complete, accurate, and correspond to the final qualitative impact score use to rate performance.

Recommendation 3: *Revise internal written guidance for the oversight of the Enterprises' compliance with Duty to Serve requirements to incorporate up to date practices that include the following*

- *Review and approval procedures for assigning and documenting scores and ratings for evaluation of the Enterprises' Plans and performance;*
- *Review and approval procedures to ensure that DHMG accurately calculates annual evaluation scores and ratings;*
- *Procedures for the practice and frequency of conducting routine meetings with the Enterprises and documenting and communicating results to relevant FHFA stakeholders; and*
- *Procedures for the documentation and submission of quarterly monitoring reviews to relevant FHFA stakeholders.*

Management Response: The Agency agrees with the recommendation. By March 31, 2026, DHMG will update its internal written procedures to include:

- a) procedures for reviewing, approving, assigning and documenting scores and ratings;
- b) steps that outline the review and approval process which ensures accurate calculations of scores and ratings;
- c) procedures for the practice and frequency of conducting routine meetings with the Enterprises and documenting and communicating results to relevant FHFA stakeholders; and
- d) documentation and submission of quarterly monitoring reviews to relevant FHFA stakeholders.

If you have any questions relating to our response, please contact Moji Adelekan.

cc: Aaron Kofsky
Moji Adelekan
John Major

Federal Housing Finance Agency Office of Inspector General

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