

Federal Housing Finance Agency
Office of Inspector General



Fannie Mae Successfully Implemented its Compliance Plan for FHFA's NPL Post-Sale Data Collection Requirements

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Executive Summary

In 2015, the Federal Housing Finance Agency (FHFA or Agency) authorized Fannie Mae and Freddie Mac (the Enterprises) to sell non-performing loans (NPLs) held in their retained portfolios to reduce the number of such loans in those portfolios and to thereby transfer credit risk to the private sector. FHFA established multiple NPL program sales requirements, including but not limited to post-sale reporting by NPL buyers to the Enterprises for a four-year period regarding borrower outcomes.

Our 2017 audit found the Enterprises were not collecting from NPL buyers certain post-sale information necessary to determine whether those buyers were complying with FHFA's NPL program requirements. We recommended that FHFA determine the information necessary to ensure NPL program requirements are being met and that it update the reporting standards and Enterprise data collection templates accordingly.

In response, FHFA required the Enterprises to collect four additional data fields from NPL buyers. We closed our recommendation based on these corrective actions in May 2018. Our February 2020 compliance review found that Freddie Mac had collected these four new data fields from its NPL buyers, but Fannie Mae had not. Fannie Mae provided us with a proposed plan to collect the data starting in 2020.

We initiated this compliance review to verify that Fannie Mae, pursuant to its plan, collected the four new NPL data fields from March 1, 2020, through August 31, 2021 (the review period). Our testing verified that Fannie Mae had fulfilled its commitment to collect the four data fields for applicable NPL deals that closed during the review period.

This report was prepared by Wesley M. Phillips, Senior Policy Advisor, with assistance from Patrice Wilson, Senior Investigative Evaluator.

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

/s/

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
NPL	Non-Performing Loan
OIG	Federal Housing Finance Agency Office of Inspector General
VP	Fannie Mae Vice President

BACKGROUND

The NPL Sales Program's Goals and Requirements

The Enterprises sell NPLs to reduce the number of delinquent loans held in their retained portfolios and to thereby transfer credit risk to the private sector. After an initial FHFA-approved pilot sale in August 2014, FHFA granted approval to Freddie Mac to sell NPLs on January 15, 2015, and to Fannie Mae on July 2, 2015.

FHFA established multiple sales requirements for buyers of Enterprise-retained NPLs. For example, FHFA requires that NPL buyers/servicers report to the Enterprises on those loans' resolution, and on borrower and neighborhood outcomes, for four years after the NPL sale. The Enterprises must then report a large volume of this data to the Agency for inclusion in its semiannual reports on the NPL sales program's status.¹ FHFA monitors loan resolutions and borrower and neighborhood outcomes based on this reported aggregated data.

In 2017, We Found Deficiencies in and Made Recommendations for the NPL Sales Program

Our 2017 audit found that the Enterprises were not collecting from their NPL buyers certain post-sale information necessary to determine buyer/servicer compliance with FHFA's sales requirements, because the Enterprises' data collection templates did not contain the requisite data fields.² We recommended that FHFA:

- Determine the information necessary to assess whether all of FHFA's NPL goals and requirements are being met;
- Update/modify the NPL sales reporting requirements as necessary to obtain that information; and
- Update/modify the templates the Enterprises use to collect loan-level data from NPL buyers and servicers, as necessary.³

FHFA agreed with the recommendation.

¹ See, for example, FHFA, *Enterprise Non-Performing Loan Sales Report*, December 2020.

² OIG, *NPL Sales: Additional Controls Would Increase Compliance with FHFA's Sales Requirements* (July 24, 2017) (AUD-2017-006).

³ The report also included other recommendations that were not applicable to this compliance review.

In 2018, FHFA Updated its Post-Sale Data Collection Requirements

On March 30, 2018, FHFA reported that it had updated its NPL post-sale requirements to include four additional, previously uncollected data fields that NPL buyers would be required to report to the Enterprises when applicable, starting that same day.⁴ Because of these updates, we closed our recommendation on May 25, 2018.

As of 2020, Fannie Mae Was Still Not Collecting the Required Four Data Fields from NPL Buyers

We found in 2020 that Freddie Mac had collected the four required NPL data fields, but that Fannie Mae had not begun doing so.⁵ A Fannie Mae vice president (VP) reported to us that Fannie Mae had not incorporated the four data fields into its NPL buyer post-sale reporting template as required by FHFA as of March 30, 2018. According to the VP, Fannie Mae recognized in late 2019 that it had neglected to add these data fields to its buyer reporting template and characterized that omission as an “oversight” on Fannie Mae’s part. The VP said that Fannie Mae was developing a plan to collect the four data fields and that Fannie Mae would provide it to us when it was completed.

In January 2020, Fannie Mae provided us with a copy of the plan, which included revising its NPL offering memoranda, buyer reporting template, and training materials to include the four required data fields. Fannie Mae’s plan also stated that it would require NPL buyers for two deals that settled in 2018 and two that settled in 2019 to report the four data fields to Fannie Mae starting at the quarter ending December 31, 2019. Further, Fannie Mae’s plan stated that it would require the four data fields to be reported post-sale for all of its NPL deals going forward.

Notwithstanding Fannie Mae’s failure to collect the four data fields as of the start of 2020, we did not reopen our 2017 audit recommendation in light of Fannie Mae’s plan to comply with the data collection requirement. However, we stated that we would “revisit this matter after an appropriate interval to determine whether Fannie Mae has honored its commitment to collect the required data fields.”

⁴ These four data fields are: (1) Interest Rate Period for Modified NPLs; (2) Initial Interest Only Period for Modified NPLs; (3) Real Estate Owned Multiple Listing Start Date; and (4) Real Estate Owned Sales Bid Acceptance Date.

⁵ OIG, *Compliance Review of FHFA’s Non-Performing Loan Sales Program* (February 26, 2020) (COM-2020-02).

FINDINGS

We initiated this compliance review to verify that Fannie Mae had implemented its plan to collect from its NPL buyers the four required post-sale data fields it had previously failed to obtain. Specifically, we tested whether Fannie Mae collected the four data fields for the two NPL deals that settled in 2018, the two such deals that settled in 2019, and all other NPL deals that settled from March 1, 2020, through August 31, 2021 (review period). We found that in each instance Fannie Mae did seek to collect the four data fields.

Fannie Mae Collected the Four Data Fields from its 2018 and 2019 NPL Buyers

To assess whether Fannie Mae implemented its plan to collect the four data fields for the NPL sales that settled in 2018 and 2019, we requested that Fannie Mae provide us with the NPL data reports for those deals.⁶ Fannie Mae did so, and our review of those data reports determined that Fannie Mae did require its NPL buyers to report the four data fields for its 2018 and 2019 NPL sales.

Fannie Mae Instructed its 2021 NPL Buyer To Report the Four Data Fields

As noted above, our review period extended through 2020 and concluded on August 31, 2021. We understand from Fannie Mae that no NPL deals settled in 2020 due to the COVID pandemic, but that it resumed NPL deals in 2021, with one settling (in two parts) in July and August 2021.⁷ However, the NPL buyer for this 2021 deal is not due to report to Fannie Mae any data – including but not limited to the four data fields at issue – until 2022, due to Fannie Mae’s reporting cycle.⁸ As a result, this buyer’s quarterly report was not available for our review during this project.

In lieu of reviewing the 2021 NPL data report, we requested that Fannie Mae provide any of its communications with that NPL buyer in which it may have directed the buyer to report the four data fields at issue in its quarterly reports to the Enterprise. Fannie Mae provided documentation of its communications with the NPL buyer, which reflected that Fannie Mae

⁶ Fannie Mae requires NPL buyers to report the data to Fannie Mae on a quarterly basis. Within our review period, there were six quarters following Fannie Mae’s implementation of its compliance plan: first quarter 2020, second quarter 2020, third quarter 2020, fourth quarter 2020, first quarter 2021, and second quarter 2021.

⁷ According to Fannie Mae, two of the pools in the 2021 NPL deal settled in July 2021 and three pools settled in August 2021.

⁸ According to Fannie Mae, an NPL buyer must report loan resolution results and borrower outcomes at least every calendar quarter, with the first report due at the end of the calendar quarter that is six months following settlement of the sale. For example, if loans are sold in August 2021 for the initial reporting, Fannie Mae will request that the buyer populate the template with 3/31/2022 data on the loans.

had so directed the buyer to report the four data fields starting in 2022. For this reason, we are assured that Fannie Mae implemented its data collection plan with regard to this NPL buyer in addition to those from which it collected the four data fields in 2018 and 2019.

CONCLUSION.....

Our 2020 compliance review found that Freddie Mac had collected the four required post-sale NPL data fields, but that Fannie Mae had not. Fannie Mae presented a plan to begin doing so, both for four already-settled NPL deals and for all future NPL deals. In this compliance review, we verified that Fannie Mae implemented this plan for all applicable sales during our review period.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to verify that Fannie Mae fulfilled its commitment, as discussed in our February 2020 compliance review report, to collect the four missing post-sale data fields for two NPL transactions that settled in 2018, two that settled in 2019, and for all such deals going forward.

To meet this objective, we reviewed the six quarterly reports that NPL buyers submitted to the Enterprise during our review period (March 1, 2020, through August 31, 2021) to verify whether Fannie Mae had included the four fields for the two 2018 NPL transactions and the two 2019 NPL transactions.

We reviewed communications between Fannie Mae and an NPL buyer for one NPL deal that settled in July and August 2021 to verify that the buyer would be required to report to Fannie Mae the four data fields starting in 2022. We also interviewed FHFA and Fannie Mae officials.

We conducted our compliance review from September 2021 through November 2021 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

We provided a draft of this report to FHFA for its review and comment. The Agency provided no technical comments and informed us that it did not intend to provide a management response.

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