

Federal Housing Finance Agency
Office of Inspector General



The Enterprises Substantially Complied with FHFA's Revised Fraud Reporting Requirements

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Executive Summary

The Housing and Economic Recovery Act of 2008 (HERA) requires Fannie Mae and Freddie Mac (the Enterprises) to establish and maintain procedures designed to discover and report instances of fraud and possible fraud. A 2010 Federal Housing Finance Agency (Agency or FHFA) regulation requires each Enterprise to submit to the FHFA Director instances of fraud and possible fraud relating to the purchase or sale of fraudulent loans or financial instruments. Also, FHFA Advisory Bulletin (AB) 2015-02, *Enterprise Fraud Reporting*, directed them to submit monthly and quarterly fraud status reports to FHFA. FHFA provided standardized templates to the Enterprises that specified the information to be included in those reports.

In 2018, we found that FHFA did not make documented, systematic use of the fraud reports' contents, so we recommended that "FHFA re-evaluate the fraud information it requires from the Enterprises and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises." FHFA agreed with the recommendation and replaced AB 2015-02 with AB 2019-04, *Enterprise Fraud Reporting*. FHFA also issued revised monthly and quarterly status report templates to the Enterprises. We closed our recommendation in March 2020 due to these corrective actions.

We initiated this compliance review to determine whether FHFA ensured that the Enterprises followed AB 2019-04's fraud reporting requirements and complied with the revised reporting templates' requirements. Specifically, we tested whether the Enterprises submitted monthly and quarterly fraud reports to FHFA from March 2020 through June 2021 (the review period) as required by AB-2019-04 and whether the reports included the information required by the revised reporting templates. We found that FHFA ensured that the Enterprises fully complied with FHFA's updated monthly fraud report requirements and substantially complied with its updated quarterly fraud report requirements.

This report was prepared by Karen E. Berry, Senior Investigative Counsel, and Patrice Wilson, Senior Investigative Evaluator. We appreciate the cooperation of FHFA staff, and all those who contributed to this report's preparation.



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

/s/

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ABBREVIATIONS

AB	Advisory Bulletin
Agency or FHFA	Federal Housing Finance Agency
BSA	Bank Secrecy Act
Enterprises	Fannie Mae and Freddie Mac, collectively
FinCEN	Financial Crimes Enforcement Network
HERA	Housing and Economic Recovery Act of 2008, Pub. L. 110-289 (July 30, 2008)
OIG	Federal Housing Finance Agency Office of Inspector General
Review Period	March 2020 through June 2021
SAR	Suspicious Activity Report
Treasury	U.S. Department of the Treasury

BACKGROUND.....

HERA requires the Enterprises to establish and maintain procedures designed to discover and report instances of fraud and possible fraud. In 2010, FHFA promulgated a regulation to implement HERA’s fraud reporting requirements. This regulation requires each Enterprise to submit to the FHFA Director “a timely written report upon discovery . . . that it has purchased or sold a fraudulent loan or financial instrument, or suspects a possible fraud relating to the purchase or sale of any loan or financial instrument.” The regulation defines “fraud” to mean: “a misstatement, misrepresentation, or omission that cannot be corrected and that was relied upon by a regulated entity to purchase or sell a loan or financial instrument.”

The Enterprises also have fraud reporting obligations under the Bank Secrecy Act (BSA). The BSA authorizes the U.S. Department of the Treasury (Treasury) to require financial institutions to keep records and file reports. The Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury, implements, administers, and enforces compliance with the BSA and its implementing regulations. FinCEN issued a final rule (FinCEN Rule) in 2014 that defines the Enterprises as financial institutions for the BSA’s purposes.¹ Under the FinCEN Rule, each Enterprise must implement an anti-money laundering program and report suspicious activities—including suspected money laundering and mortgage fraud—to FinCEN using Suspicious Activity Reports (SARs).

In March 2015, FHFA issued AB 2015-02, *Enterprise Fraud Reporting*, which directed the Enterprises to submit monthly and quarterly fraud status reports to FHFA.² AB 2015-02 required monthly fraud reports to contain information regarding: (a) the SARs filed with FinCEN during the previous month; and (b) all known or suspected possible fraud relating to the purchase or sale of a loan or financial instrument for which the Enterprise has not filed a SAR. AB 2015-02 required quarterly fraud reports to contain information on the status of matters “required to be reported in the monthly fraud status report for which the Enterprise’s fraud unit has opened a case.” FHFA provided standardized templates to the Enterprises that specified the information to be included in the Enterprises’ monthly and quarterly fraud reports.

¹ Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Housing Government Sponsored Enterprises, 79 Fed. Reg. 10365, codified at 31 C.F.R. Parts 1010 and 1030. The FinCEN Rule required compliance with its provisions on or before August 25, 2014. 31 C.F.R. §§ 1030.210(d) and 1030.320(g).

² AB 2015-02 also provided guidance regarding the circumstances in which FHFA expects an immediate notification of fraud or possible fraud pursuant to 12 C.F.R. Part 1233. FHFA’s oversight of the Enterprises’ compliance with the AB’s immediate notification requirement was beyond our 2018 evaluation’s scope, so this compliance review does not address the issue.

In 2018, We Found that FHFA Did Not Make Documented, Systematic Use of the Content of the Enterprises' Fraud Reports

Our 2018 evaluation³ found FHFA did not make any documented, systematic use of the content of the Enterprises' fraud reports. DER did not regularly use the reports in any supervisory activity, and several examiners informed us that they do not rely on information in the reports.⁴ We recommended in 2018 that "FHFA re-evaluate the fraud information it requires from the Enterprises and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises."

FHFA agreed with the recommendation. FHFA replaced AB 2015-02 with AB 2019-04, *Enterprise Fraud Reporting* and issued revised monthly and quarterly status report templates to the Enterprises. AB 2019-04 and the revised report template requirements went into effect on January 1, 2020. On March 18, 2020, we closed our 2018 recommendation based on these corrective actions.

FINDINGS

We initiated this compliance review in October 2021 to determine whether FHFA ensured that Fannie Mae and Freddie Mac adhered to FHFA's updated monthly and quarterly fraud reporting requirements. Specifically, we tested whether monthly and quarterly fraud reports submitted by the Enterprises to FHFA from March 2020 through June 2021 (the review period) included the information required by the fields in the revised reporting templates. With only one minor exception detailed below, FHFA ensured that the Enterprises complied with AB 2019-04's fraud reporting requirements.

FHFA Ensured that the Enterprises Complied with Monthly Fraud Reporting Requirements

FHFA's revised monthly fraud report template has 15 required fields (e.g., Loan Number, Fraud Category,⁵ Fraud Scheme, and SAR Filing Date). For each Enterprise, we examined 16

³ OIG, *FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility* (September 24, 2018) (EVL-2018-004).

⁴ During our 2018 fieldwork, FHFA advised us that it had just begun to analyze the information in the Enterprises' fraud reports to identify trends. While FHFA had considered using that information for risk analysis, it had not developed any framework in which to assess the information.

⁵ The revised monthly fraud report template contains a field entitled "Fraud Category" that contains an instruction stating: "Please select the best option from the listed categories. Please do not create new categories." During our analysis of documents produced by FHFA, we found several categories that were

monthly reports that were submitted to FHFA during our review period to determine how many of them included the information required by the revised template's fields. Our review confirmed that in all instances, each Enterprise's monthly fraud reports included all information required by the revised template's fields.

FHFA Ensured that the Enterprises FHFA Substantially Complied with Quarterly Fraud Reporting Requirements

The revised quarterly fraud report template has eight required fields⁶ (e.g., Designated AML Compliance Officer, Internal Trainings Completed, and Significant Internal Control Changes or Updates). For each Enterprise, we examined six quarterly fraud reports that were submitted to FHFA during our review period to determine how many of them included the information required by the revised template's fields. Our review confirmed that in every instance, Fannie Mae's quarterly fraud reports included all the information required to be reported by the fields in the FHFA template.

As for Freddie Mac's quarterly fraud reports, our review found that in five of its six quarterly fraud reports (83%), the field entitled "Designated AML Compliance Officer" was missing the name of the Designated AML Compliance Officer, which is required by the revised template. Of these five quarterly fraud reports missing the name of the individual from the required field, FHFA confirmed that Freddie Mac also failed to otherwise provide the individual's name for two of the reports.⁷ With this exception, Freddie Mac provided all other required information in the quarterly fraud reports it submitted to FHFA during the review period.

reported, which were not among the categories listed on the template. FHFA told us that on November 4, 2019, they formally advised the Enterprises that they did not object to the Enterprises' use of five additional categories not actually specified in the revised monthly fraud report template (e.g., AML – Use of Illicit Funds, AML – Structuring, AML – No Business or Lawful Purpose, AML – Cyber, Vendor), so long as both Enterprises agreed.

⁶ The quarterly fraud report template also has an optional field called "Comments." Because this field is optional, it fell beyond this compliance review's scope.

⁷ For the remaining three quarterly fraud reports, FHFA asserts that Freddie Mac provided the Designated AML Compliance Officer's name under a different required field entitled "Fraud_BSA_AML-Staff." For that field, FHFA's template specifically states that it seeks the "[n]umber of full-time staff whose primary responsibilities include risk mitigation and compliance activities in these fields." The illustrative example in FHFA's template identifies that a response to this required field would be a number, not a name.

CONCLUSIONS

Our testing indicates that during the review period, FHFA ensured that the Enterprises adhered to FHFA’s monthly fraud reporting requirements and that they substantially complied with its quarterly fraud reporting content requirements.

OBJECTIVE, SCOPE, AND METHODOLOGY

We initiated this compliance review in October 2021 to determine whether FHFA ensured that Fannie Mae and Freddie Mac adhered to FHFA’s updated monthly and quarterly fraud reporting requirements.

To accomplish our objective, we obtained monthly and quarterly fraud reports submitted by the Enterprises to FHFA from March 2020 through June 2021. We tested both the monthly and quarterly fraud reports to determine how many included the information required by the revised reporting template’s fields. We interviewed FHFA staff, submitted written questions regarding fraud reports, and analyzed their written responses.

We conducted our compliance review from October 2021 through December 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 elected to not make a formal management response.

ADDITIONAL INFORMATION AND COPIES.....

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