

Federal Housing Finance Agency
Office of Inspector General



FHFA Ensured that Fannie Mae Submitted Required Property Valuation Data to the Agency's Mortgage Loan Integrated System

Compliance Review • COM-2022-005 • May 31, 2022



COM-2022-005

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Executive Summary

The Federal Housing Finance Agency (Agency or FHFA)'s oversight of Fannie Mae and Freddie Mac (collectively, the Enterprises) includes monitoring the characteristics and performance of loans the Enterprises have acquired. FHFA does so in part by utilizing the Mortgage Loan Integrated System (MLIS), which is an Agency database that maintains loan-level data provided by the Enterprises.

During a March 2019 audit that assessed FHFA's oversight of Fannie Mae's purchases of single-family loans from 2015 through 2017, we found multiple instances in MLIS where selected data fields were either missing information entirely or listed the expected data as "unknown." For example, for single-family mortgages acquired by Fannie Mae, MLIS identified the property valuation method(s) present at the time of loan delivery as "unknown" for 647,820 mortgages, which amounted to more than 10% of the Fannie Mae loans reviewed. The absence of complete and accurate data from MLIS presents a significant problem, because FHFA relies on MLIS to support its research, policy analyses, and publications.

We recommended, and FHFA agreed, that the Agency work with Fannie Mae to resolve the high incidence of an "unknown" value being recorded in MLIS for the property valuation method(s) used for Fannie Mae's single-family properties. FHFA represented that it worked with Fannie Mae to identify an alternative data source for this MLIS field, and the Agency provided evidence in 2019 that the percentage of unknown values in MLIS for the property valuation method had declined to less than one percent for single-family loans that Fannie Mae had acquired after 2012. We closed the recommendation on September 20, 2019, based on these corrective actions.

This compliance review sought to assess whether, following our recommendation's 2019 closure, FHFA had ensured that Fannie Mae continued to provide MLIS with data identifying the property valuation method(s), or "type(s)," that had been used for the single-family properties it acquired. To do so, we reviewed MLIS data for Fannie Mae's single-family loan acquisitions from October 1, 2019, through December 31, 2021, to determine the percentage of loans for which the property valuation type is listed as "unknown." Our analysis found that for single-family properties acquired by Fannie Mae during the review period, MLIS recorded a property valuation type other than "unknown" for more than 99% of the loans reviewed. This demonstrates that FHFA had ensured Fannie Mae's continued submission to MLIS of required data for the property valuation types used for its single-family mortgages.



COM-2022-005

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This report was prepared by Alisa Davis, Senior Policy Advisor, and Patrice Wilson, Senior Investigative Evaluator, with assistance from Omolola Anderson, Senior Statistician. 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.fhfaoig.gov.

/s/

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
DRS	FHFA Division of Research and Statistics
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
MLIS	Mortgage Loan Integrated System
OIG	FHFA Office of Inspector General
Review Period	October 1, 2019, to December 31, 2021

BACKGROUND

Fannie Mae’s Role in Single-Family Housing Finance

Fannie Mae performs an important role in the nation’s housing finance system by providing liquidity, stability, and affordability to the mortgage market. Fannie Mae does so by purchasing single-family mortgages from mortgage companies, commercial banks, credit unions, state and local housing finance agencies, and other financial institutions (collectively, mortgage sellers). It then either holds these mortgages in its portfolio or packages them into mortgage-backed securities.

Fannie Mae’s Underwriting Standards for Single-Family Mortgages

Fannie Mae manages the quality of its mortgage purchases by requiring mortgage sellers to comply with its *Selling Guide*, which specifies Fannie Mae’s underwriting standards, eligibility guidelines, and its policies and procedures related to sales of single-family mortgages. FHFA has delegated limited authority to Fannie Mae to amend its *Selling Guide*. Historically, many sellers sought to sell mortgages to Fannie Mae that did not meet the *Selling Guide*’s underwriting standards or eligibility requirements. In certain instances, Fannie Mae negotiated deviations from the *Selling Guide*’s standard terms to accommodate particular mortgage sellers. Fannie Mae would capture such negotiated terms in a “master agreement” that supplemented the *Selling Guide*’s requirements and set forth the additional negotiated terms under which Fannie Mae had agreed to purchase mortgages from a particular mortgage seller.

FHFA’s MLIS Database

The Agency’s oversight of the Enterprises includes monitoring their acquired loans’ characteristics and performance. FHFA does so in part by utilizing MLIS, which is an Agency database that maintains loan-level data provided by the Enterprises. The Fannie Mae data in MLIS is transmitted and uploaded from several of that Enterprise’s systems.

Our 2019 Audit Found that MLIS Lacked Certain Data

In 2019, we audited FHFA’s oversight of Fannie Mae’s purchases of single-family mortgages from 2015 through 2017.¹ The audit included an assessment of the extent to which Fannie Mae may have purchased loans that deviated from the *Selling Guide*’s standard requirements

¹ OIG, *Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017* (March 27, 2019) (AUD-2019-006).

for debt-to-income ratio, loan-to-value ratio, credit score, and property valuation method (collectively, selected credit terms). In making this assessment, we analyzed Fannie Mae's master agreements with its top three single-family mortgage sellers to determine whether those master agreements included negotiated deviations. We also reviewed MLIS' loan-level data to determine whether Fannie Mae purchased loans with selected credit terms that differed from the *Selling Guide*'s terms. The 2019 audit did not review certain refinances of mortgages that had been owned or guaranteed by Fannie Mae because the credit risk associated with those particular refinances essentially replaced the credit risk on the mortgages that Fannie Mae had already held.

When reviewing Fannie Mae's loan-level data in MLIS, we found instances where the MLIS data fields for the selected credit terms either lacked information or where the values in those data fields were listed as "unknown." For example, Fannie Mae identified in MLIS the property valuation method present at the time of loan delivery as "unknown" for 647,820 of its loans, which amounted to more than 10% of the loans we reviewed.

This gap in Fannie Mae's MLIS data was noteworthy. Property valuation is an important aspect of underwriting a single-family loan. When determining whether to finance the purchase of a single-family property, a lender typically reviews a borrower's ability to repay the proposed mortgage, and when doing so, will obtain a property valuation to ensure it does not lend more than the property's value.² MLIS's lack of information regarding the method by which lenders obtained property valuations for 10% of the sampled single-family properties ultimately sold to Fannie Mae therefore posed a significant problem for FHFA, because it relies on MLIS to support its research, policy analyses, and publications; these purposes require a high level of data quality in MLIS.

We recommended that FHFA work with Fannie Mae to resolve the high incidence of the "unknown" property valuation method in MLIS for Fannie Mae's single-family properties. FHFA agreed with the recommendation. FHFA subsequently represented that it had worked with Fannie Mae to identify an alternative data source for the property valuation method, and the Agency provided evidence in 2019 that the percentage of unknown property valuation method had declined to less than one percent for loans acquired after 2012. On September 20, 2019, we closed the recommendation based on these corrective actions.

² A property's value can be established through various means, including appraisals and automated valuation models.

FINDINGS

We initiated this compliance review in February 2022 to determine whether, following the recommendation’s closure in 2019, FHFA had ensured that Fannie Mae supplied to MLIS the required information regarding property valuation method(s), or “types,”³ used for single-family properties the Enterprise had acquired. To that end, we reviewed MLIS data for single-family properties Fannie Mae had acquired from October 1, 2019, through December 31, 2021 (the review period), to determine the percentage of loans for which the property valuation type is listed as “unknown,” if any. We determined that for single-family properties acquired by Fannie Mae during the review period, MLIS recorded a particular property valuation type—i.e., a response rather than “unknown”—for more than 99% of the loans reviewed.

Fannie Mae Included the Property Valuation Type in MLIS During our Review Period

We first asked officials in FHFA’s Division of Research and Statistics (DRS) if anyone within the Agency had reviewed whether Fannie Mae had included in its MLIS data the property valuation type(s) used for the single-family loans it acquired during the review period. A DRS official told us that he had monitored this particular data field in MLIS and had not found any “unknown” values in it through December 2020.

To validate this representation, and thereby to independently assess whether Fannie Mae continued including the property valuation type in its MLIS data, we requested from DRS certain MLIS data for the single-family loans that Fannie Mae acquired during the review period, including the property valuation type used for each such loan. DRS provided MLIS data covering 10,372,182 single-family loans acquired by Fannie Mae during our review period. Our analysis of this MLIS data covered all 10,372,182 loans, not a representative sample taken from the whole. We identified 315 single-family loans, or 0.003% of the population (i.e., far fewer than 1 in every 100 loans), which included a property valuation type that had been specified as “unknown.”⁴

³ Our 2019 audit referred to this data field as including information on property valuation *methods*, but MLIS has subsequently been modified to designate the data field as referring to data valuation *types*. We understand that “methods” and “types” are substantively interchangeable terms in this context, so this report uses “method” when referring to data analyzed in connection with the 2019 audit, and “type” is used when discussing our assessment of MLIS data obtained for this report’s review period.

⁴ We did not find any instances of MLIS recording an “unknown” property valuation type for a single-family loan acquired by Fannie Mae from October 1, 2019, through December 31, 2020. All 315 instances of “unknown” values occurred for single-family mortgages that Fannie Mae acquired during 2021.

CONCLUSION.....

FHFA complied with our 2019 recommendation to work with Fannie Mae to resolve the high incidence of MLIS listing an “unknown” property valuation type at the time of acquisition for single-family mortgages acquired by Fannie Mae. Our assessment found that Fannie Mae provided to MLIS the required data specifying the property valuation type lenders had used for more than 99% of those loans it acquired during our review period. This constitutes a significant improvement over the 2019 audit’s results for this particular data field and thereby demonstrates that FHFA had ensured Fannie Mae’s continued submission to MLIS of required data for the property valuation types used for Fannie Mae’s single-family mortgages.

OBJECTIVE, SCOPE, AND METHODOLOGY.....

We initiated this compliance review in February 2022 to determine if Fannie Mae provided to MLIS the property valuation method used for each single-family loan it had acquired during the review period.

To accomplish our objective, we obtained MLIS loan-level data, including the property valuation method, for single-family loans that Fannie Mae acquired from October 1, 2019, through December 31, 2021. We analyzed 10,372,182 loans to determine the count of “unknown” property valuation methods. We excluded certain refinances from our analysis to be consistent with the approach taken in the 2019 audit that is the basis for this compliance review.

We conducted our compliance review from February 2022 through March 2022 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (December 2020), 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. We considered the Agency’s technical comments when finalizing this report. The Agency declined to provide a formal management response.

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