

Federal Housing Finance Agency
Office of Inspector General



FHFA Followed Its Procedure for Reviewing Enterprise Employee Retention Award Proposals

..... EXECUTIVE SUMMARY

PURPOSE

Fannie Mae and Freddie Mac (the Enterprises) must request approval from the Federal Housing Finance Agency (Agency or FHFA) to offer a retention award, which is a sum of money intended to motivate a key employee to remain with the organization. In response to our 2022 recommendation, FHFA established a procedure to strengthen its capacity to review retention award proposals for Enterprise executive officers to ensure they are consistent with law and regulation. This compliance review’s objective was to determine whether FHFA followed its procedure for reviewing Enterprise retention award proposals from October 1, 2022, to September 30, 2024 (review period).

RESULTS

During our review period, the Enterprises made three executive officer retention award proposals to FHFA. FHFA approved a retention award proposal from Fannie Mae. However, FHFA viewed Freddie Mac’s two proposals as inadequately supported and requested that they be withdrawn. Freddie Mac agreed to FHFA’s requests.

Our testing determined that FHFA followed its procedure in reviewing the three proposals.

This report was prepared by Wesley Phillips, Senior Policy Advisor, and Karen Van Horn, Senior Investigative Counsel. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to this report’s preparation. 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 on www.oversight.gov.

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ABBREVIATIONS

Agency or FHFA	Federal Housing Finance Agency
Enterprises	Fannie Mae and Freddie Mac
OIG	FHFA Office of Inspector General
Procedure	Retention Awards Procedure
Review period	October 1, 2022, through September 30, 2024
STOCK Act	Stop Trading on Congressional Knowledge Act of 2012

BACKGROUND.....

From time to time, an Enterprise may determine that it is necessary to offer an employee a retention award, which is a sum of money intended to motivate the employee to remain with the Enterprise for a certain period. For example, an Enterprise may wish to make a retention award to an executive responsible for a significant initiative who otherwise intends to leave the Enterprise, and whose departure might jeopardize the initiative’s success. An Enterprise may make retention award payments to an employee in one or more installments for a specified period.

FHFA is Responsible for Reviewing Enterprise Retention Award Proposals

FHFA requires the Enterprises to submit all employee retention award proposals to the Agency for its review and approval, to ensure the Enterprises’ compliance with Agency policy as well as (in the case of executive officers) applicable law and regulation. One such law is the STOCK Act of 2012, which prohibits an Enterprise from paying bonuses to its “senior executives”¹ while the Enterprise remains in conservatorship.² Accordingly, in reviewing an Enterprise retention award proposal for a senior executive, FHFA must ensure that the proposed award would not constitute a bonus barred by the STOCK Act.

Our 2022 Report Sought to Determine Whether an Award to a Fannie Mae Senior Executive Authorized by FHFA Was Improper

We initiated a review in 2022 after a whistleblower told OIG that the former FHFA Chief of Staff had led an effort to secure a \$250,000 award for a Fannie Mae executive. We found that a former FHFA Director and his Chief of Staff had instructed Fannie Mae to make a \$250,000

¹ FHFA has determined that the term “senior executive” has the same meaning as “executive officer” for an Enterprise. According to 12 C.F.R. § 1230.2(1), “Executive officer” means:

- (1) With respect to an Enterprise:
 - (i) The chairman of the board of directors, chief executive officer, chief financial officer, chief operating officer, president, vice chairman, any executive vice president, any senior vice president, any individual in charge of a principal business unit, division, or function, and any individual who performs functions similar to such positions whether or not the individual has an official title; and
 - (ii) Any other officer as identified by the Director.

² Stop Trading on Congressional Knowledge Act of 2012 (“STOCK Act”), Pub. L. No. 112-105, 126 Stat. 291 (2012); see 12 U.S.C. § 4518a (“Notwithstanding any other provision in law, senior executives at the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation are prohibited from receiving bonuses during any period of conservatorship for those entities on or after April 4, 2012.”).

award to a senior executive.³ Fannie Mae proposed that it would use a retention award to satisfy FHFA’s request to provide the executive with additional compensation.

FHFA staff determined that the proposed award was a retention award and did not assess whether it would be a prohibited bonus in violation of the STOCK Act. Similarly, FHFA’s reviews of other Enterprise retention awards for senior executives also did not assess whether such proposals were consistent with the STOCK Act.

We recommended that the Agency implement a procedure under which retention awards proposed by the Enterprises for senior executives are analyzed and reviewed to ensure they would not violate the STOCK Act’s prohibition on the payment of bonuses. The Agency agreed with this recommendation.

FHFA Issued a Procedure to Strengthen Its Review of Enterprise Retention Award Proposals

On April 29, 2022, in response to our recommendation, FHFA issued its Retention Awards Procedure (Procedure). In the Procedure, FHFA defines a bonus, in contrast to a retention award, as “a payment that rewards an employee for work already performed (rather than encouraging or incentivizing the employee not to voluntarily terminate for a period of time)” and requires an Enterprise to provide seven items of supporting information for any proposed retention award:

- Statement as to whether the employee who would receive the award is an “executive officer” as defined at 12 C.F.R. § 1230.2;
- Appropriate business justification that explains the departure risk;
- Explanation of how the employee’s retention will mitigate the risk identified;
- Explanation of how the retention period was determined;
- Explanation of how the payout schedule was calculated;
- Explanation of how the retention award amount was determined; and
- Confirmation that the employee is not already covered by an outstanding retention award.

³ OIG, *Report of Administrative Inquiry into a Whistleblower Complaint Concerning an Enterprise Executive Compensation Matter* (January 26, 2022) (OI/OIG-2022-001).

The Procedure also specifies five criteria that FHFA may utilize in its review of Enterprise retention award proposals.⁴ These five criteria are:

- Proposed award rationale;
- Proposed award amount;
- Proposed award amount as a percentage of the employee’s total direct compensation;
- Retention period; and
- Proposed award payout schedule.

Based on the Agency’s action, we closed the recommendation on September 27, 2022.

OBJECTIVE AND SCOPE

Our objective was to assess whether FHFA fully reviewed any employee retention award proposals submitted by the Enterprises from October 1, 2022, through September 30, 2024 (review period).

RESULTS

The Enterprises Submitted Three Retention Award Proposals to FHFA During Our Review Period, of which Only Two Included All Required Supporting Materials

According to FHFA, the Enterprises submitted three employee retention award proposals to FHFA during our review period: one proposal for a senior executive from Fannie Mae and the other two proposals for senior executives from Freddie Mac.⁵ On review, we noted that Fannie Mae’s proposal and one of Freddie Mac’s proposals included all seven items

⁴ Unlike the criteria for the Enterprises’ submissions (which are mandatory), the criteria for the Agency’s review are discretionary. We find the discretion here to be appropriate; the Agency could not be expected to review the rationale for an award where none had been provided.

⁵ Our review found that Fannie Mae’s retention award proposals have declined since our prior report and fieldwork. The reasons for this decline are beyond the scope of this report, and we make no findings on the matter. Previously, we identified 46 retention award proposals submitted to FHFA by Fannie Mae in 2020 and 2021, including three for senior executives. In contrast, during our two-year review period, both Enterprises submitted a total of three award proposals.

required under the Procedure. Freddie Mac’s second proposal, however, failed to include six out of the seven required items.

FHFA Fully Reviewed the Retention Award Proposals

Upon review of FHFA documentation, we determined that the Agency employed each of the Procedure’s five review criteria and approved the proposal for Fannie Mae.⁶

In the first of Freddie Mac’s two proposals, we determined that FHFA utilized the Procedure’s five review criteria. Based on its analysis, the Agency requested the Enterprise to withdraw the proposal because the business justification was not well supported.⁷ Freddie Mac agreed to withdraw the retention award proposal.

Freddie Mac’s second proposal omitted six of the seven items that the Procedure required. Understandably, FHFA’s review of Freddie Mac’s second proposal did not utilize the Procedure’s five review criteria. Based on FHFA’s feedback, Freddie Mac withdrew this inadequately supported retention award proposal as well.

CONCLUSION.....

FHFA fully considered the three employee retention award proposals the Enterprises submitted during the review period.

⁶ Despite FHFA’s approval of the award, the intended recipient left the Enterprise prior to receiving any of the scheduled payments.

⁷ For example, Freddie Mac asserted that the executive was a retention risk because he had been passed over for a promotion. However, FHFA documentation reflected that, almost three months after Freddie Mac filled the position for which the executive was not selected, the executive remained with the Enterprise without expressing an intention to leave.

APPENDIX: METHODOLOGY

To accomplish our objective, we performed the following procedures:

- We reviewed the Procedure and FHFA guidance to the Enterprises on its implementation during the review period.
- We reviewed Agency documentation pertaining to its review of Enterprise retention award proposals during our review period.
- We interviewed FHFA officials.

We conducted our compliance review from October 2024 through December 2024 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 have taken the Agency’s feedback into account.

Federal Housing Finance Agency Office of Inspector General

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