

QUESTIONS FOR THE RECORD
STEVE A. LINICK
July 19, 2010

Questions for Mr. Steve A. Linick, Inspector General – Designate, Federal Housing Finance Agency from Senator Shelby

1. Mr. Linick, to date, the GSE's have received one of the largest taxpayer-funded bailouts in our history. Unfortunately, the taxpayer remains exposed to considerable losses going forward. To properly review the FHFA's conservatorship of these entities, it seems that one would need direct access to examine Fannie and Freddie, especially since the Director of the FHFA acts with all the powers of the shareholders, directors, and officers of the regulated entity. Do you believe that the FHFA IG can credibly determine if FHFA is acting properly as conservator without having direct access to the institutions themselves?

Response: In order for the FHFA IG to credibly determine if FHFA is acting properly as both conservator and regulator of Fannie and Freddie, I believe that the FHFA IG will require direct access to the institutions themselves.

2. Mr. Linick, federal law allows the FHFA to "take such action as may be: 1) necessary to put the regulated entity in a sound and solvent condition; and 2) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity." The FHFA, acting as conservator of Fannie or Freddie, executes any directives given to those institutions, whether those directives originate within the FHFA or another entity. Given these facts, would you agree that the FHFA IG has a duty to examine those directives and to report on any impact that these directives may have on the ability of the FHFA to properly execute its duties as conservator or receiver? If so, how would you plan to fulfill this duty?

Response: The FHFA IG has responsibility for, among other things, overseeing the manner in which FHFA carries out its management of the conservatorship, including its actions to ensure that Fannie and Freddie operate in a safe and sound manner and preserve and conserve the assets of Fannie and Freddie. To the extent that FHFA executes any directives (regardless of their origination) that impact FHFA's ability to carry out its management of the conservatorship, I believe the IG has a duty to report on the impact of those directives. If confirmed as IG, I intend to fulfill this duty by providing reports to Congress as required by the Inspector General Act, and by working closely with Congressional members and staff through regular and open communication.

3. Mr. Linick, in addition to the multiple challenges that any IG would face, there is not currently, nor has there ever been, an IG for the FHFA. As such, should you be confirmed, you will be starting from scratch. As an unconfirmed nominee, I certainly understand that you have not been able to undertake the analysis necessary to determine the resources required to properly perform your

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duties, and hence I won't ask you to speculate on specifics today. Due to the importance of this office having adequate resources to complete its mission, however, it is vital that both the FHFA and Congress quickly know what will be necessary. If you are confirmed, would you, within a realistic time frame, provide the Committee with an estimate regarding the budgetary needs of your office?

Response: The FHFA is a relatively new agency, whose regulatory role has never been tested. In 2008, FHFA placed Fannie Mae and Freddie Mac in conservatorship out of concern that their deteriorating financial condition threatened the stability of the financial markets. Since then, the Department of Treasury has provided billions of dollars to the enterprises. Under these circumstances, the FHFA IG will play a critical role in safeguarding taxpayer dollars, ensuring transparency, and preventing fraud, waste, and abuse. In addition, the FHFA IG will carry significant management responsibility in having to establish a new office and quickly hire a staff of highly qualified individuals. Given the scope of the IG's mission, substantial resources will be essential. If confirmed as IG, I will commit to working expeditiously to provide this Committee with an estimate regarding the budgetary needs of the office.

Questions for Mr. Steve A. Linick, Inspector General – Designate, Federal Housing Finance Agency from Senator Vitter.

1. In your testimony you say that you intend to be proactive in overseeing the conservatorship of Fannie Mae and Freddie Mac. I believe it is important for you to aggressively and regularly, more often than annually, report to Congress on how the conservatorship is being managed and how the two institutions are being run in order to understand the impacts of their business practices on the taxpayer. Did HERA, the law which created the FHFA and the position of the IG for which you are nominated, place any constraints on your ability to examine these institutions as aggressively as Congress intends?

Response: If confirmed as IG, I will work closely with Congressional members and staff and regularly report on how FHFA is fulfilling its mission as conservator and regulator. At this time, I am not aware of anything in HERA that would constrain the IG's ability to aggressively and proactively perform oversight responsibilities.

2. It is important that your office, as inspector general for the agency running the conservatorship of Fannie Mae and Freddie Mac and charged with overseeing the Federal Home Loan Bank System, has enough resources and staff to aggressively do your job. You may be aware that the Special Inspector General for TARP's budget was 23 million in 2010, and 50 million in 2011. The SEC Inspector General budget is closer to 15 million. Have you given any thought to the size of your budget given the magnitude of the undertaking Congress is asking the FHFA IG office to undertake?

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3. Are you aware that the FHFA recently released a report to Congress that stated that the condition and performance of 6 of 12 FHLBanks are less than adequate, four FHLBanks have negative accumulated other comprehensive income and that Seattle FHLBank has been designated "undercapitalized"? Do you plan on looking into the activities that lead these banks into such a perilous position or are there legal impediments that would prevent you from doing so?

Response: One of FHFA's primary goals as regulator is to ensure that the government-sponsored enterprises, including the FHLBanks, operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements. I am aware of FHFA's recent report to Congress describing the poor condition and performance of the FHLBanks referenced above. I believe it is well within the IG's authority to review FHFA's oversight in this area and the activities that led these banks into their current condition. If confirmed as IG, I will develop a proactive agenda to oversee the programs and operations of FHFA with this and other important issues in mind.

4. Is it within your ability as inspector general of the FHFA to examine the impact of the affordable housing goals on Fannie Mae and Freddie Mac and do you intend to use that authority to help paint an accurate picture for Congress on the impacts of all of its housing policies on the GSEs?

Response: In addition to ensuring that Fannie and Freddie operate in a safe and sound manner and conserving and preserving their assets, FHFA is charged with promoting homeownership and affordable housing and supporting an efficient secondary market. I believe it is well within the authority of the IG to evaluate the impact of the affordable housing goals on Fannie and Freddie and FHFA's ability to operate them in a safe and sound manner and conserve and preserve their assets. If confirmed as IG, I will develop a proactive agenda to oversee the programs and operations of FHFA with this and other important issues in mind.

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**Questions for Mr. Steve A. Linick, Inspector General - Designate, Federal Housing
Finance Agency from Senator Brown.**

As you know, Fannie Mae settled an accounting fraud case with the SEC in 2006, in connection with its management's false portrayal of the stability of the organization's earnings, resulting in higher executive bonuses. A parallel claim is now pending in the courts on behalf of the Ohio Public Employee Retirement System (OPERS) and other plaintiffs who argue they were defrauded by the same actions that resulted in the SEC settlement. FHFA recently proposed new regulations to establish conservatorship and receivership processes for Fannie Mae and Freddie Mac. These proposed procedures would bar payments for claims arising from corporate misconduct, including securities fraud and violations of corporate governance policies, if Fannie and Freddie were to be placed in receivership.

- Would the effect of these regulations be to extinguish the claims of the OPERS and other plaintiffs representing something like 30 million pension participants?
- If so, are you aware of a similar situation where an agency used the regulatory process to attempt to nullify court proceedings?
- If FHFA is successful in its efforts, do you think this would serve to deter or encourage fraud within the agency in the future?

Response: Although I understand the cause of your concern, I do not have the information necessary to form a response to these important questions. If confirmed as IG, I will examine these issues carefully, and work with you and the Committee to evaluate FHFA's effectiveness at combating fraud.