

Federal Housing Finance Agency  
Office of Inspector General



**Five Years After Issuance, Many  
Examination Modules Remain in  
Field Test; FHFA Should Establish  
Timelines and Processes to  
Ensure Timely Revision of  
Examiner Guidance**



EVL-2019-003

September 10,  
2019

## Executive Summary

Created by Congress in 2008, the Federal Housing Finance Agency (FHFA) is charged by the Housing and Economic Recovery Act of 2008 with oversight of Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities). FHFA's examinations of its regulated entities are fundamental to FHFA's supervisory mission.

FHFA's Division of Enterprise Regulation (DER) is responsible for supervising the Enterprises and does so through targeted examinations and ongoing monitoring activities. The FHLBank System consists of 11 FHLBanks and the FHLBanks' fiscal agent, the Office of Finance, which are supervised by the Division of FHLBank Regulation (DBR). DBR conducts both on-site annual examinations and off-site monitoring of the FHLBanks and the Office of Finance.

FHFA's Examination Manual, issued in 2013, provides the examination policies and practices for examinations of the Enterprises, the FHLBanks, and the Office of Finance. The Examination Manual includes 26 modules organized by risk category and line of business.

In 2012, FHFA announced its intention to develop supplemental modules to provide direction for FHFA supervision staff and as a reference for the regulated entities. The supplemental modules were intended "to contribut[e] to a better documented, transparent, and more comprehensive examination program." These modules break broad examination areas such as credit risk management into more discrete modules such as single-family and multi-family credit loss management, mortgage securitization, and mortgage underwriting and acquisitions.

FHFA issued 22 supplemental modules, as they were developed, in field test status rather than in final status. The "field test" designation means that the module is in draft, and feedback from examiners is solicited to improve the module.

FHFA has finalized only 5 of the 22 supplemental modules; these 5 modules apply to examinations only of the Enterprises. The remaining 17 supplemental modules remain in field test through the date of this report and have been in field test status for several years:

- Eleven have been in field test for more than five years;
- Three have been in field test for more than four years;
- Three have been in field test for more than two years.



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We initiated this evaluation to (1) determine whether FHFA adopted policies or procedures for completing field testing and finalizing the supplemental modules and (2) assess why the 17 field test supplemental modules were never finalized.

We found that when FHFA developed the 2013 Examination Manual, it established deadlines for concluding field testing and examiner feedback. In its Annual Performance Plan, the Agency also identified the executive responsible for completion of the Examination Manual and established a timetable of December 31, 2013, for its completion, and the Agency met that goal.

In contrast, when FHFA issued the 22 supplemental modules for field testing, it did not establish any timelines for finalizing the supplemental modules and did not hold individuals accountable for completion of these modules in any Agency annual performance plan. DER, which is responsible for overseeing the supplemental modules, did not have a reliable process by which these modules would be field tested.

DER officials reported to us that the supplemental modules were viewed largely as reference tools by DER examiners, rather than examination tools, because the modules are too broad and the work programs within them are not useful for examining the Enterprises. Rather than finalize the 17 supplemental modules, DER launched an effort in November 2018 to develop a stand-alone examination manual for examinations of the Enterprises. According to DER, development of the Enterprise-only examination manual includes review of all relevant Examination Manual modules and supplemental modules to identify and incorporate applicable components. DER expects its new Enterprise-only examination manual to be issued by December 31, 2019, although it does not expect all modules to be final by that date.

Unlike DER, DBR expects its examiners to use all Examination Manual modules and applicable supplemental modules in examinations of the FHLBanks. We found that DBR established risk-based minimum frequency expectations (annual, biennial, and triennial) for the use of each module. The 2013 Examination Manual modules and supplemental modules applicable to examinations of the FHLBanks will remain available for use by DBR examiners after DER issues its Enterprise-only examination manual.

Given the significant delay in finalizing the supplemental modules, DER should take the necessary steps to ensure that the current project to revise its examination guidance is completed in a timely manner.



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We recommended that FHFA (1) establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual and (2) establish and communicate clear expectations for use of revised and new examination modules by DER examiners.

In a written management response, FHFA agreed with the recommendations.

This report was prepared by Jacob Kennedy, Senior Investigative Evaluator, with assistance from Adrienne Freeman, Investigative Counsel. 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.fhfaog.gov](http://www.fhfaog.gov).

Angela Choy  
Assistant Inspector General for Evaluations

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## ABBREVIATIONS .....

BSA/AML	Bank Secrecy Act/Anti-Money Laundering
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DSPS	Division of Supervision Policy and Support
EIC	Examiner-In-Charge
Enterprises	Fannie Mae and Freddie Mac
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
GPRA	Government Performance and Results Act of 1993, as amended by the GPRA Modernization Act of 2010
Green Book	<i>Standards for Internal Control in the Federal Government</i>
OIG	Federal Housing Finance Agency Office of Inspector General
OMWI	FHFA's Office of Minority and Women Inclusion
OPB	Operating Procedures Bulletin
PAR	FHFA Performance and Accountability Report

## BACKGROUND .....

### FHFA Supervisory Responsibility

Created by Congress in 2008, FHFA is charged by the Housing and Economic Recovery Act of 2008 with oversight of the Enterprises and the FHLBank System. As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA’s supervisory mission.

Within FHFA, DER is responsible for supervising the Enterprises and does so through targeted examinations and ongoing monitoring activities. According to FHFA, targeted examinations enable examiners to conduct a deep or comprehensive assessment of selected areas of high importance or risk, while the purpose of ongoing monitoring is to analyze real-time information and to use those analyses to identify Enterprise practices and changes in an Enterprise’s risk profile that may warrant supervisory attention. DER also conducts ongoing monitoring or targeted examinations to assess the Enterprises’ remediation of serious deficiencies and the Enterprises’ adherence to supervisory guidance and conservatorship directives.

The FHLBank System consists of 11 FHLBanks and the FHLBanks’ fiscal agent, the Office of Finance. FHFA has delegated to DBR the duty to supervise the FHLBanks and the Office of Finance. As such, DBR conducts both on-site annual examinations and off-site monitoring of the FHLBanks and the Office of Finance.

### FHFA Examination Manual

FHFA stated in its statutorily required 2013 Performance and Accountability Report<sup>1</sup> (PAR) that it established examination procedures “[t]o provide better supervision....[and] to assess risk exposures and controls.”<sup>2</sup> Its current Examination Manual, issued in 2013, “harmonizes the examination policies and practices previously adopted by FHFA’s predecessor agencies”

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<sup>1</sup> The Government Performance and Results Act of 1993, as amended by the GPRA Modernization Act of 2010 (GPRA), requires FHFA (and other federal agencies) to establish strategic plans, develop performance goals aligned with those strategic plans, and set performance indicators to measure whether those goals are met. Pursuant to GPRA, each federal agency must publish on its public website, after the end of each fiscal year, whether it has met its performance goals.

<sup>2</sup> FHFA, *2013 FHFA Performance and Accountability Report* (Dec. 16, 2013) (online at [www.fhfa.gov/AboutUs/Reports/ReportDocuments/2013\\_PAR\\_N508.pdf](http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2013_PAR_N508.pdf)).

for examinations of the Enterprises, the FHLBanks, and the Office of Finance.<sup>3</sup> Contained in the Examination Manual are 26 modules, which FHFA describes as “organized by risk category and line of business.”<sup>4</sup> FHFA developed the Examination Manual in 2012 and established deadlines for concluding field testing and examiner feedback.<sup>5</sup> According to its 2014 PAR, FHFA determined to complete the Examination Manual by December 31, 2013. FHFA reported that it met this goal and explained the purpose of the Examination Manual in its Annual Performance Plan for Fiscal Year 2014:

FHFA examination work is conducted in accordance with examiner guidance issued by the Agency and contained in the examination manual and supplemental guidance modules. Each area of risk is covered by one or more modules that include background information for examiners, reference materials pertaining to that risk area, descriptions of the standards FHFA expects the regulated entities to meet, and a work program detailing how examiners should cover key issues.<sup>6</sup>

The Examination Manual is publicly available as a reference tool that describes standards and expectations for the examination of the regulated entities.

FHFA, like other federal agencies, is responsible for implementing and maintaining an effective internal control system, which includes development and implementation of adequate policies and procedures. Standards issued by the Comptroller General of the United States for internal controls in the federal government are set forth in *Standards for Internal Control in the Federal Government* (also known as the Green Book). The Green Book directs managers in federal agencies to periodically review policies and procedures for continued relevance and effectiveness and, as internal processes change, to timely review those changes to determine whether existing policies and procedures should be revised.<sup>7</sup> Consistent with this standard, FHFA committed in its Examination Manual to update its guidance “from time

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<sup>3</sup> Seven modules were revised since FHFA issued the Examination Manual.

<sup>4</sup> The modules generally contain the following sections: Introduction, Background, and Workprogram. The “workprogram” section details the examination work steps applicable to the examination topic covered by the module.

<sup>5</sup> FHFA’s Office of Minority and Women Inclusion (OMWI) is responsible for examining the diversity and inclusion practices of the regulated entities. The OMWI Diversity and Inclusion module was developed and approved in 2016 and revised in 2017.

<sup>6</sup> FHFA, “Overview of Performance Goal 1.2,” *Annual Performance Plan for Fiscal Year 2014* (Nov. 4, 2013) (online at [www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA\\_FY\\_2014\\_APP\\_508.pdf](http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_FY_2014_APP_508.pdf)).

<sup>7</sup> GAO, *Standards for Internal Control in the Federal Government* (Sept. 2014) (GAO-14-704G) (online at [www.gao.gov/assets/670/665712.pdf](http://www.gao.gov/assets/670/665712.pdf)).

to time to reflect evolving examination practices, supervisory expectations, and regulated entity operations, as well as changes in regulatory requirements.”

## Supplemental Examination Guidance

In 2012, FHFA announced its intention to develop “supplemental modules” to “provide[] direction for FHFA supervision staff” and “as a reference for the regulated entities.” In connection with its efforts to identify and contract with a third party to draft the supplemental modules, FHFA set forth its expectations for them: such modules were intended “to contribut[e] to a better documented, transparent, and more comprehensive examination program.”

By March 2014, the contractor selected by FHFA developed 18 supplemental modules.<sup>8</sup> Subsequently, FHFA drafted and developed 4 additional supplemental modules, bringing the total to 22. Of the 22 supplemental modules, 6 apply to examinations of both the Enterprises and the FHLBanks and the remaining 16 apply only to examinations of the Enterprises. Unlike the Examination Manual modules, which according to FHFA’s website are grouped by CAMELSO examination ratings components, FHFA created the supplemental modules with discrete topics along business lines to provide more specificity and guidance for examiners.<sup>9</sup> The supplemental modules break out broad topics such as “credit risk management” into more distinct modules such as single-family and multi-family credit loss management, credit risk management, mortgage securitization, and mortgage underwriting and acquisitions. Similar to the Examination Manual modules, the supplemental modules describe the standards and expectations for examinations, set forth the processes examiners are expected to follow when conducting examination activities, and describe the work products produced during those activities. Also similar to the Examination Manual modules, each of the supplemental modules, except one,<sup>10</sup> contains a five-step work program.

Consistent with how FHFA issued the 2013 Examination Manual and modules, FHFA issued the 22 supplemental modules, as they were developed, in field test status rather than in final status.<sup>11</sup> The “field test” designation means that the module is in draft, and feedback from examiners is solicited to improve the module. While the supplemental modules remain in

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<sup>8</sup> FHFA paid the contractor a total of \$1,086,519.

<sup>9</sup> “CAMELSO” is “FHFA’s . . . uniform rating system for the Enterprises and the Federal Home Loan Banks.” According to FHFA, “examiners employ a risk-focused rating system under which each regulated entity and the Office of Finance is assigned a common composite rating based on an evaluation of various aspects of its operations.” Specifically, the seven components include: Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk.

<sup>10</sup> One supplemental module contains a four-step work program.

<sup>11</sup> FHFA finalized the Examination Manual and modules in 2013 after one year of field testing.

field test, FHFA considers them to be non-public and they are unavailable to the public or the regulated entities.<sup>12</sup>

FHFA has finalized only 5 and made public 4 of the 22 supplemental modules.<sup>13</sup> The remaining 17 supplemental modules remain in field test through the date of this report and have been in field test status for several years:

- Eleven have been in field test for more than five years;
- Three have been in field test for more than four years;
- Three have been in field test for more than two years.

We conducted this evaluation to (1) determine whether FHFA adopted policies or procedures for completing field testing and finalizing the supplemental modules and (2) assess why the 17 field test supplemental modules were never finalized.

## FACTS & ANALYSIS .....

### FHFA Did Not Establish Timelines or a Requirement for Field Testing and Finalizing the Supplemental Modules

As we explained previously, FHFA intended that the 22 supplemental modules provide direction for DER and DBR supervision staff, as applicable, and serve as a reference for the regulated entities. While FHFA had established procedures for incorporating completed supplemental modules into the Examination Manual, these procedures did not include a timeline for undertaking or completing field tests for the supplemental modules.<sup>14</sup> FHFA established a timetable and identified the executive responsible for completing the 2013

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<sup>12</sup> According to DER officials, the supplemental modules could be made available in whole or in part to the regulated entities. However, as a matter of practice, both DER and DBR do not share field test supplemental modules with the regulated entities. Only the names of the supplemental modules identified as “field test” are listed on FHFA’s website. In some cases, however, FHFA has publicly communicated its supervisory expectations by issuing advisory bulletins. For example, FHFA’s Advisory Bulletin 2015-07, *Fraud Risk Management*, is related to the Agency’s Fraud Overview and Fraud Risk Management module that was issued for field test in December 2016.

<sup>13</sup> The five finalized supplemental modules only relate to DER and the examination of the Enterprises. Many of the 17 field test supplemental modules relate to single-family and multi-family credit risk.

<sup>14</sup> The Examination Standards Branch developed “Procedures for Creating Final Examination Manual Modules” and “Procedures for Creating Field Test Supplemental Guidance,” both dated August 7, 2013. That branch was dissolved by 2015 as part of FHFA’s restructuring at that time, and these procedures were no longer in effect.

Examination Manual, which was incorporated into its Annual Performance Plan. FHFA did not establish completion due dates for the supplemental modules and did not hold individuals accountable for completion of these modules in any Agency annual performance plan.<sup>15</sup>

From August 2012 through September 2014, the supervision policy office, in FHFA's Division of Supervision Policy and Support (DSPS) (responsible for "[d]eveloping a coherent and regularly updated set of FHFA supervision policies and procedures"), was responsible for oversight of development of the supplemental modules, field testing, and for finalizing these modules. During this period, FHFA had no policies or requirements for field testing the supplemental modules and set no completion deadlines. While DSPS had a process to finalize the supplemental modules, it had no timelines for doing so. In a September 2014 reorganization, DSPS ceased to be a separate division and the responsibilities of the supervision policy office overseeing the supplemental modules were reassigned to DER.<sup>16</sup>

Subsequently, responsibilities for the supplemental modules were divided amongst the subject matter experts within DER. For example, the Office of Risk and Policy was charged with responsibility for the modules related to credit risk, and the Office of the Chief Accountant was responsible for the modules related to governance. The Deputy Director of DER explained that DER intended to finalize the supplemental modules. However, the offices within DER with responsibilities for the supplemental modules never established policies or requirements for moving the supplemental modules forward or requiring the supplemental modules to be field tested. Our field work found no other office or official within DER who set such requirements. While we found emails sent by an FHFA official responsible for developing the supplemental modules to DER examiners seeking feedback on these modules as they were used "on examinations," this official recalled that very little feedback was provided by DER examiners on the supplemental modules.

We also found that DER had no reliable process by which the supplemental modules would be field tested. Because DER did not require the annual examination plans to include examination activities that focus on topics in the supplemental modules, its Deputy Director reported that DER did not ensure there would be an opportunity to field test each of the supplemental modules.

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<sup>15</sup> FHFA, "Performance Goal 1.2.3," *Annual Performance Plan for Fiscal Year 2014* (Nov. 4, 2013) (online at [www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA\\_FY\\_2014\\_APP\\_508.pdf](http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_FY_2014_APP_508.pdf)).

<sup>16</sup> Certain offices transferred to DER continued to provide examination policy support to DBR.

## **DER Understood that its Examiners Largely Concluded that Most of the Supplemental Modules Were Not Useful for Their Examinations of the Enterprises**

DER officials reported to us that the supplemental modules were viewed largely as reference tools by DER examiners rather than examination tools—a view shared by the DER Deputy Director. According to these officials, the supplemental modules are too broad and the work programs within them are not useful for examining the Enterprises, particularly in the modules related to credit risk.<sup>17</sup> The Examiner-in-Charge (EIC) for Freddie Mac explained that the “one-size-fits-all” approach is not well suited for DER’s narrowly focused examinations, and the work programs in the supplemental modules may be better suited for examinations of the FHLBanks. He stressed that DER examiners are expected to use their discretion or “expert judgment” to design the examination steps, in consultation with their manager and EIC, during the early stages of the process rather than follow the work programs contained in each module. The DER Deputy Director told us that in practice, DER examiners look at previous examinations to build out their examination steps.

## **DER is Developing an Enterprise-Only Examination Manual in Which it Plans to Incorporate Components of the Supplemental Modules**

At the time FHFA issued its Examination Manual in 2013, the then-Acting FHFA Director held the view that the examination activities of DER and DBR should be governed by one Examination Manual. After several years of experience using FHFA’s Examination Manual, DER officials determined that DER needed its own examination manual to align with FHFA’s CAMELSO rating system, which is how DER assesses risk at the Enterprises. In November 2018, DER launched an effort to develop a stand-alone examination manual for DER examinations of the Enterprises. The project charter for development of this manual states that the new examination manual is intended to be consistent with FHFA’s risk framework and useful for DER examiners and targets a completion date by December 31, 2019. DER officials explained that the contemplated structure of this manual will remain modular, and each module will align with one of the seven components of the CAMELSO rating system. This Enterprise-only examination manual will contain electronic links so examiners can access only those modules relevant to their examination activities. According to DER, development of this DER examination manual includes review of all applicable Examination

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<sup>17</sup> The DER official tasked in late 2015 with finalizing supplemental modules on single-family and multi-family credit risk management, underwriting acquisitions, and credit loss/REO was not comfortable finalizing them due to concerns regarding their treatment of the risks and how they were written and decided in January 2016 to “park” the initiative. This official stated he subsequently worked on developing the new work program for examiners, as discussed below.

Manual modules and supplemental modules to identify and incorporate applicable components.<sup>18</sup>

The Deputy Director of DER reported to us that DER examiners complained that the five-step work program in the supplemental modules as well as the Examination Manual modules applicable to examinations of the Enterprises was structurally “cumbersome.” Part of the development of the Enterprise-only examination manual is a three-step work program for each module, which DER officials believe will “better align[] with the actual sequence of examination work and emphasizes examination planning steps.” As appropriate, the modules in the Enterprise-only examination manual will incorporate components of both the Examination Manual modules and the supplemental modules and, once issued, will render the supplemental modules applicable only to the Enterprises obsolete.

The Deputy Director of DER explained that DER recognizes that its new examination manual is not a static document. The objective is to have more comprehensive and detailed work programs that will be used consistently from year to year to enable DER to better examine risks at the Enterprises over time.<sup>19</sup> Once issued, modules and work programs contained in the modules may need to be revised and additional modules may need to be developed. DER is also developing a schedule for reviewing the modules in the future to ensure examiner guidance will be regularly updated.

According to the Deputy Director of DER, some, but not all, of the DER modules will be drafted by year end 2019. She also explained that she expects more updates to certain modules in 2020 and ongoing updates in the future. Until a module is updated or replaced, the existing module for that exam topic will continue to be available for examiners to use.

### **DBR Established a Minimum Use Frequency for All Applicable Modules Based on Risk and Expects its Examiners to Follow This Frequency Schedule**

In 2012, DBR issued an Operating Procedures Bulletin (OPB) that established minimum frequency expectations (annual, biennial, and triennial) for the supervision activities of DBR examiners based on risk. DBR revised the OPB in 2014, and again in 2016, to address the

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<sup>18</sup> Five of the Examination Manual modules apply only to DBR’s examinations of the FHLBank System.

<sup>19</sup> In our prior work assessing elements of DER’s supervisory program, we found that FHFA and DER guidance to examiners was less prescriptive than the guidance issued by other federal financial regulators and that significant discretion is vested in each EIC and examination team resulting in inconsistent supervisory practices. See *OIG, Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA’s Supervision Program for the Enterprises*, at 16 (Dec. 15, 2016) (OIG-2017-003) (online at [www.fhfa.gov/Content/Files/OIG-2017-003.pdf](http://www.fhfa.gov/Content/Files/OIG-2017-003.pdf)). During this evaluation, the Deputy Director of DER told us that examiner discretion is fundamental to the examination process but acknowledged the value of having more comprehensive and detailed work programs. She explained that they are trying to achieve that objective with the new examination manual project.

minimum frequency for use of each Examination Manual and applicable supplemental module. Pursuant to this OPB, as revised, DBR examiners are required to use the Examination Manual and six applicable supplemental modules in their examinations of the FHLBanks.<sup>20</sup> The Deputy Director of DBR confirmed that DBR expects its examiners to use all of these modules in their examinations of the FHLBanks.<sup>21</sup>

After DER issues its Enterprise-only examination manual, the Examination Manual modules and supplemental modules that apply to DBR examinations of the FHLBanks will remain available for use by DBR examiners. Our Office of Audits noted in a recently published report that FHFA’s Bank Secrecy Act/Anti-Money Laundering (BSA/AML) module has remained in field test for four years since its issuance. Since the publication of the audit report, DBR has decided to combine several related modules into a “Financial Crimes Risk Management” module, which it expects to release for DBR examiner review in September 2019.<sup>22</sup> Once final, it would be publicly available. Our review of DER documents also found that both DBR and DER examiners have provided feedback on the Information Security module and that module is being revised.

## FINDING .....

When FHFA developed the 2013 Examination Manual, it established deadlines for concluding field testing and examiner feedback. In its Annual Performance Plan, the Agency also identified the executive responsible for completion of the Examination Manual and established a timetable of December 31, 2013, for its completion, and the Agency met that goal. In contrast, when FHFA issued the 22 supplemental modules for field testing, it did not establish any timelines for finalizing the supplemental modules and did not hold individuals accountable for completion of these modules in any Agency annual performance plan. DER, which is responsible for overseeing the supplemental modules, did not have a reliable process by which these modules would be field tested. Consequently, more than five years later, many of the supplemental modules remain in field test status.

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<sup>20</sup> The following supplemental modules apply to the examination of the Enterprises and FHLBanks: BSA/AML, Distressed Asset Disposition Fraud, Information Security, Fraud Overview/Fraud Risk Management, Office of Foreign Asset Control Compliance, and Third-party Relationship Management.

<sup>21</sup> DBR refers to examinations as “work programs.” DBR’s examination topics, or work programs, are based on specific examination and supplemental modules.

<sup>22</sup> OIG, *FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank*, at 12 (July 10, 2019) (AUD-2019-008) (online at [www.fhfa.ig.gov/Content/Files/AUD-2019-008%20BSA%20Audit%20%28public%29%20Redacted.pdf](http://www.fhfa.ig.gov/Content/Files/AUD-2019-008%20BSA%20Audit%20%28public%29%20Redacted.pdf)).

## CONCLUSION.....

Currently, 17 of the 22 supplemental modules developed by FHFA remain in field test through the date of this report, many of which have been in field test for more than five years. FHFA intended that the 22 supplemental modules would provide direction for DER and DBR supervision staff and serve as a reference for the regulated entities; however, the Agency did not establish timelines or a requirement for field testing and finalizing the supplemental modules.

DER has now undertaken to develop an Enterprise-only examination manual that will incorporate components of the supplemental modules as well as modules from the 2013 Examination Manual. Although the new Enterprise-only manual is scheduled to be completed by December 31, 2019, not all modules in the new manual are expected to be drafted by that date. Given the significant delay in finalizing the supplemental modules, DER should take the necessary steps to ensure that the current project to revise its examination guidance is completed in a timely manner.

## RECOMMENDATIONS.....

We recommend that FHFA:

1. Establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual.
2. Establish and communicate clear expectations for use of revised and new examination modules by DER examiners.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft report of this evaluation. FHFA provided technical comments on the draft report, which we incorporated as appropriate. In its management response, which is reprinted in its entirety in the Appendix, FHFA agreed with OIG's recommendations.

## OBJECTIVE, SCOPE, AND METHODOLOGY .....

We conducted this evaluation to assess FHFA’s adoption and implementation of its supplemental examination modules for the examination of the Enterprises and the FHLBanks. Specifically we determined whether FHFA adopted policies or procedures for completing field testing and finalizing the supplemental modules and assessed why 17 field test supplemental modules were never finalized.

To meet these objectives, we reviewed all applicable guidance published by FHFA and DER since 2012 related to developing and finalizing the 22 supplemental modules. We reviewed internal Agency documents and the statement of work for the contractor hired by FHFA to help develop the supplemental modules to understand the scope of the contractor’s work. We determined which modules were prepared by the outside contractor, which modules relate to DER and DBR, and when the field test modules were first developed.

We also interviewed the Deputy Director of DER, Deputy Director of DBR, the EICs for the Fannie Mae and Freddie Mac examination teams, and other FHFA officials within the policy and risk group within DER.

The field work for this report was completed between April 2019 and July 2019.

This evaluation was conducted under the authority of the Inspector General Act and in accordance with the Council of the Inspectors General on Integrity and Efficiency’s *Quality Standards for Inspection and Evaluation* (January 2012). These standards require us to plan and perform an evaluation based upon evidence sufficient to provide a reasonable basis to support its findings and recommendations. We believe that the finding and recommendations discussed in this report meet those standards.

## APPENDIX: FHFA MANAGEMENT RESPONSE.....



## Federal Housing Finance Agency

### MEMORANDUM

TO: Angela Choy, Assistant Inspector General for Evaluations

FROM: Nina A. Nichols, Deputy Director, Division of Enterprise Regulation (DER)<sup>NAN</sup>

SUBJECT: Draft OIG Report: *Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance*

DATE: September 9, 2019

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Thank you for the opportunity to respond to the draft report titled, *Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance* (Report). The draft Report makes two recommendations:

**Recommendation 1:** *OIG recommends that FHFA establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual.*

**Management Response:** FHFA agrees with the recommendation. DER has established project plans and milestones designed to ensure the Enterprise Examination Manual is completed in a timely manner. By April 30, 2020, DER will issue internal guidance outlining procedures for regular review of Enterprise Examination Manual modules and for making updates as necessary.

**Recommendation 2:** *OIG recommends that FHFA establish and communicate clear expectations for use of revised and new examination modules by DER examiners.*

**Management Response:** FHFA agrees with the recommendation. By April 30, 2020, DER will issue internal guidance communicating management expectations for use of the Enterprise Examination Manual modules in examinations of the Enterprises.

cc: Chris Bosland  
Larry Stauffer  
John Major

## ADDITIONAL INFORMATION AND COPIES.....

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