

**REDACTED**

Federal Housing Finance Agency  
Office of Inspector General



# **FHFA Continues to Monitor and Assess the Adequacy of Fannie Mae's Allowance for Loan Losses in Its Multifamily Line of Business**

This report contains redactions of information that is privileged or  
otherwise protected from disclosure under applicable law.

Evaluation Report • EVL-2026-001 • January 6, 2026

## ..... EXECUTIVE SUMMARY .....

### PURPOSE

Fannie Mae provides liquidity to the mortgage market by purchasing and securitizing multifamily mortgage loans. Each quarter, Fannie Mae develops an allowance for loan losses, which is an estimate of loans that Fannie Mae does not expect to collect, and sets aside funds to cover expected losses. In its 2024 annual report filed with the U.S. Securities and Exchange Commission (SEC), Fannie Mae disclosed that it set aside \$752 million to cover such losses. Fannie Mae included potential losses from mortgage fraud in its multifamily business in its allowance for loan losses.

This evaluation assessed the Federal Housing Finance Agency's (FHFA or Agency) oversight of Fannie Mae's multifamily allowance for loan losses, including the amounts set aside for expected losses due to fraud for the 2022, 2023, and 2024 examination cycles.

### RESULTS

We determined that Fannie Mae adjusted its allowance for loan losses to address suspected fraud found in its multifamily book of business. We also concluded that FHFA has taken supervisory action to examine and assess Fannie Mae's multifamily allowance for loan losses, including fraud risk in its multifamily book of business. FHFA's Division of Enterprise Regulation (DER) reviewed and assessed the allowance each quarter and did not question the adequacy of the allowance. DER also determined that Fannie Mae's earnings were [REDACTED].

Fannie Mae is taking actions to address an increase in suspected multifamily fraud detected in 2023 and 2024. Those actions include enhancing mechanisms for reporting potential fraud, addressing property condition issues, conducting additional training, clarifying guidelines, and exercising its contractual remedies with lenders.

Lastly, we identified an issue that did not rise to the level of a finding but deserves FHFA's consideration. We noted that DER determined that certain Fannie Mae practices [REDACTED]. Although DER addressed those practices through examination findings, and management is currently implementing a remediation plan, DER did not communicate to Fannie Mae that the practices [REDACTED]. Given that a [REDACTED] could result in an enforcement action, DER should consider taking appropriate steps to ensure it puts Fannie Mae (or Freddie Mac) on notice of any such failure in the future.

We made no recommendations in this report.

This report was prepared by Adrienne Freeman, Attorney Advisor; Jason Ramserran, Program Analyst; and Joseph Colon, Program Analyst. 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](http://www.fhfaoig.gov), and [www.oversight.gov](http://www.oversight.gov).

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## ABBREVIATIONS .....

Board	Fannie Mae Board of Directors
DER	Division of Enterprise Regulation
DUS	Delegated Underwriting and Servicing
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
PMOS	Prudential Management and Operations Standards
SEC	U.S. Securities and Exchange Commission

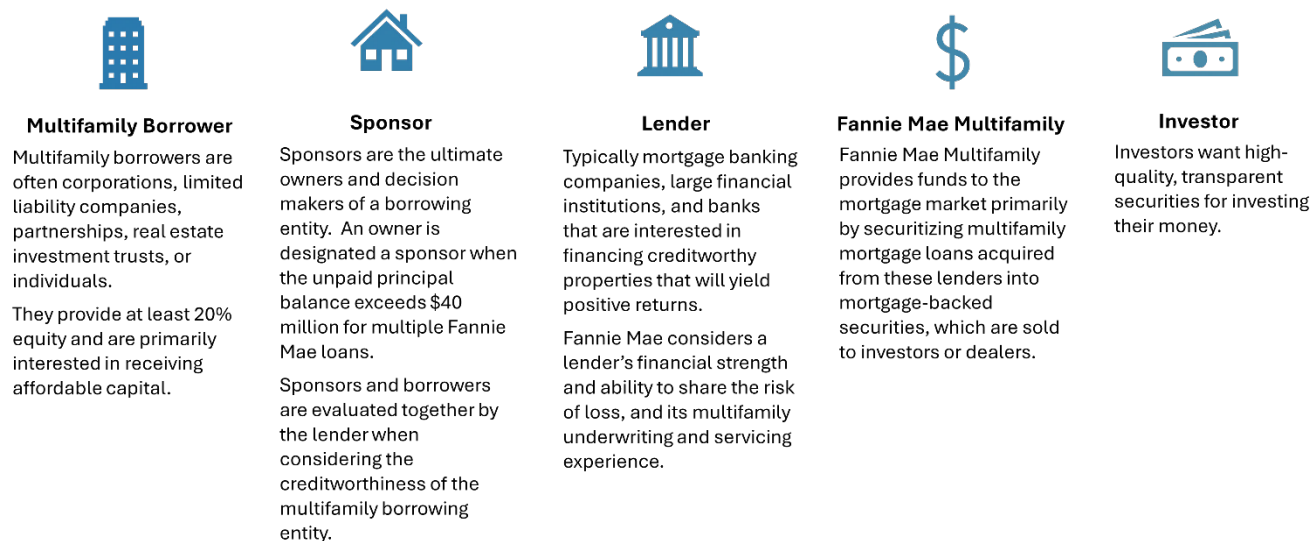
## BACKGROUND .....

FHFA is responsible for, among other things, the supervision of Fannie Mae and Freddie Mac (the Enterprises) and conducts supervisory examinations and ongoing monitoring to assess the Enterprises' safety and soundness.

### Fannie Mae Provides Liquidity to the Multifamily Mortgage Market

Fannie Mae provides liquidity to the multifamily mortgage market by purchasing and securitizing multifamily mortgage loans. The multifamily business includes properties with five or more residential units, including apartment buildings, cooperatives, senior housing, student housing, and manufactured housing communities. As of September 30, 2025, Fannie Mae's multifamily book of business totaled over \$521 billion. Figure 1 shows the key participants in Fannie Mae's multifamily business model:

**FIGURE 1: KEY PARTICIPANTS IN FANNIE MAE'S MULTIFAMILY BUSINESS MODEL**



Sources: [Fannie Mae's 2024 10-K](#), [Multifamily Website](#), and [Selling Guide](#).

### Fannie Mae Acquires Multifamily Loans from Lenders in Its Delegated Underwriting and Servicing Program

Fannie Mae has a network of approved lenders in its Delegated Underwriting and Servicing (DUS) Program that are responsible for underwriting, closing, and delivering loans on its behalf. DUS lenders must adhere to Fannie Mae's credit and underwriting criteria and are subject to

ongoing credit review and monitoring. DUS lenders, not Fannie Mae, have a direct relationship with multifamily borrowers and sponsors and perform certain due diligence functions during the underwriting process. DUS lenders are also responsible for loss-sharing obligations on multifamily loans that default. The most common arrangement is “pari-passu” where the lender takes one third of the losses while Fannie Mae retains two thirds of the losses. According to Fannie Mae, the arrangement incentivizes DUS lenders to actively manage credit exposures.<sup>1</sup>

Fannie Mae acquires loans from its lenders and securitizes those loans into Fannie Mae mortgage-backed securities, which are sold to investors. Fannie Mae creates its mortgage-backed securities by placing the multifamily loans into a trust, usually one multifamily loan per trust, and issues securities backed by those multifamily mortgage loans.

### **Fannie Mae’s 2024 Annual Financial Statement Disclosed a Multifamily Provision for Loan Losses of \$752 Million, Including Expected Losses Attributed to Mortgage Fraud**

Fannie Mae’s allowance for loan losses refers to a reserve to cover expected losses based on Fannie Mae’s estimate of loans that are anticipated to default and cannot be collected. Fannie Mae uses the Current Expected Credit Losses methodology to establish its allowance. This

**Allowance for Loan Losses** refers to a reserve to cover expected losses based on Fannie Mae’s estimate of loans that are anticipated to default and cannot be collected.

methodology requires entities to establish reserves for expected losses on assets at the time that the assets are created or acquired. This process is designed to ensure adequate reserves to account for potential losses, based upon informed estimates of loan performance deterioration.<sup>2</sup> Fannie Mae records losses as a write-off when actual loan losses are confirmed.

Each quarter and annually, Fannie Mae discloses its financial condition and performance in reports filed with the SEC. As of December 31, 2024, Fannie Mae reported a multifamily provision for loan losses of \$752 million in its annual financial filing with the SEC (10-K). The provision for loan losses is the amount of funds set aside to cover expected losses during a given period. The provision is an input into the total annual loss allowance. According to Fannie Mae, the provision can vary widely from quarter to quarter and is impacted by updates to the internal models, assumptions, and data used to determine the overall allowance. For example, the provision as of the third quarter of 2024, was

<sup>1</sup> For more information about Fannie Mae’s DUS Program, see Fannie Mae, [Fannie Mae Multifamily: DUS Lenders](#) (accessed Sept. 30, 2025).

<sup>2</sup> The 2024 allowance for loan losses also reflects expectations that 2025 and 2026 will have slower home price growth and declining loan performance. High interest rates and investor yield requirements have reduced multifamily property sales and depressed multifamily property valuations.



\$423 million, compared to \$245 million in the second quarter and \$157 million in the first quarter.

Fannie Mae acknowledges that, under current FHFA regulations, it is significantly undercapitalized relative to regulatory requirements. This status reinforces the need for the loan loss allowance to accurately reflect the risks in Fannie Mae’s portfolio, including those posed by multifamily loans. Fannie Mae discloses those risks in its 10-K.

For example, in its 2024 10-K, Fannie Mae attributed its \$752 million provision for multifamily loan losses to:

- Declining multifamily property values,
- An increase in multifamily serious delinquencies, and
- Fraud or suspected fraud.

Fannie Mae monitors each of these areas in developing the multifamily loss provision. Historically, declining property values and serious delinquencies have served as the lead indicators for this provision. Fannie Mae defines “serious” multifamily delinquencies as loans that are 60 or more days delinquent. Higher serious delinquency rates typically result in a higher allowance for loan losses.<sup>3</sup>

### **Fannie Mae Uses Models to Estimate the Allowance for Loan Losses Each Quarter**

Fannie Mae defines models as “[a]ny quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into estimates. A model consists of three components: (1) an information input component, which delivers assumptions and data to the model; (2) a processing component, which transforms inputs into estimates; and (3) a reporting component, which translates the estimates into useful business information for decision-making, risk management, risk measurement, financial reporting, or regulatory reporting.” FHFA defines model risk as the risk of loss resulting from model errors or the incorrect use or application of model output.<sup>4</sup> Model risk can be mitigated but not eliminated.

The multifamily allowance for loan losses is derived from Fannie Mae’s Multifamily CreditWorks model, which calculates allowance factors at the loan level. Fannie Mae’s

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<sup>3</sup> The multifamily serious delinquency rate is the percentage of multifamily loans that are 60 days past due based on unpaid principal balance relative to the multifamily guaranty book of business.

<sup>4</sup> See FHFA, Advisory Bulletin 2013-07, [Model Risk Management Guidance](#) (November 20, 2013) at 6.

Multifamily Allowance Team reviews the modeled allowance estimates and implements an adjustment when the model does not fully capture market conditions.<sup>5</sup>

Fannie Mae's Credit Risk Committee (a committee of senior management) meets quarterly to review and approve the allowance team's estimate of the provision.<sup>6</sup> The Credit Risk Committee considers relevant information when deciding on the amount of the provision and loss allowance to ensure that the allowance is well-supported and the methodology is consistently applied.

### **The Multifamily Allowance for Loan Losses Is Also Reviewed by an External Auditor**

Fannie Mae's annual and quarterly financial statements filed with the SEC provide a detailed picture of its business, the risks it faces, and the operating and financial results for the applicable period. Those statements include details about the allowance for loan losses.

Fannie Mae management is responsible for the financial statement process, while the Fannie Mae Board of Director's (Board) Audit Committee is responsible for oversight of financial practices, preparation of the financial statement, and recommending Board approval.

Fannie Mae's external auditor conducts an independent audit of the financial statement as well as the internal control over financial reporting. The external auditor communicates its findings to the Fannie Mae Audit Committee, including findings pertaining to "critical audit matters." A critical audit matter is an issue that is material to the financial statements, and requires challenging, subjective, or complex auditor judgment. The allowance for loan losses is a critical audit matter.<sup>7</sup>

The Fannie Mae Board reviews the financial statements and disclosures, and approves the filing of the annual report. The Board submits a draft to FHFA for review and comment prior to submission to the SEC. Once the reviews are complete, and any Agency comments are resolved, the Director of FHFA sends an "acknowledgment" letter to Fannie Mae expressing "no objection" to submitting the filings to the SEC. Figure 2 shows the steps in Fannie Mae's approval process for the allowance for loan losses, starting with the Multifamily CreditWorks model and ending with signoffs from the external auditor and FHFA.

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<sup>5</sup> The team assesses market factors, including national rent levels and vacancy rates, to determine whether the allowance estimates are reasonable.

<sup>6</sup> The Credit Risk Committee includes Fannie Mae's Chief Risk Officer, Chief Financial Officer, and senior management officials.

<sup>7</sup> See [Fannie Mae's 2024 Annual Report, Form 10-K](#) (Dec. 31, 2024) at 145.

**FIGURE 2. ALLOWANCE FOR LOAN LOSSES APPROVAL PROCESS**



Sources: [Fannie Mae’s 2024 10-K](#) and internal Fannie Mae sources.

## OBJECTIVE AND SCOPE .....

This evaluation assessed FHFA’s oversight of Fannie Mae’s multifamily allowance for loan losses, including the provisioning for loan losses due to fraud, for the 2022, 2023, and 2024 examination cycles (review period).

For details on methodology, see Appendix I.

## RESULTS .....

We determined that Fannie Mae adjusted its allowance for loan losses to address suspected fraud found in its multifamily book of business. We also concluded that FHFA has taken supervisory action to examine and assess Fannie Mae’s multifamily allowance for loan losses, including fraud risk in its multifamily book of business. FHFA did not question the adequacy of the allowance during the course of its examination work or its review of the financial statements. In addition, Fannie Mae’s external auditor concluded that Fannie Mae’s “[REDACTED] ... in the context of the consolidated financial statement taken as a whole” for each calendar year of our review period.

### Fannie Mae Identified Fraud as an Emerging Risk in Its Multifamily Business in 2024

Fannie Mae defines fraud as “any intentional act or omission, affecting or potentially affecting Fannie Mae, which is done to gain something.” Fannie Mae defines mortgage fraud as “a misstatement, misrepresentation, or omission that cannot be corrected” and is relied upon by

Fannie Mae to purchase, sell, or service a loan, or to dispose of real estate owned property.<sup>8</sup> Fraud can be committed either internally by individuals such as employees, contractors, managers, or officers, or externally by customers, vendors, and other parties.<sup>9</sup>

Fannie Mae management first noted an increase in potential fraud in multifamily loans in 2023. In November 2023, Fannie Mae identified potential fraud in its multifamily portfolio involving individual brokers at a mortgage brokerage company. Consequently, Fannie Mae suspended new business involving the mortgage brokerage company and reviewed a sample of 126 loans with high-risk indicators in the multifamily portfolio in 2024. Fannie Mae's review was intended to provide visibility into the alleged fraud conducted by the identified brokers and assess its potential exposures. As part of this review, Fannie Mae contracted outside counsel and forensic accountants to assist internal staff. Of the 126 loans, Fannie Mae found seven loans with confirmed signs of fraud.<sup>10</sup> Fannie Mae then reviewed more loans to identify potential high fraud risk loans. Fannie Mae also expanded its DUS lender due diligence requirements to prevent fraudulent loans being delivered to Fannie Mae.

In November 2023, management also reported a significant increase in referrals for potential multifamily mortgage fraud cases to the Board's Audit Committee. Management attributed that increase to improved internal awareness, leading to a rise in fraud tips. Management also noted that most of the referrals that were investigated were closed as "no fraud found," and informed the Audit Committee that Fannie Mae had not incurred actual losses due to multifamily mortgage fraud from November 2022 to November 2023.<sup>11</sup> Management advised the Audit Committee that it would continue monitoring the potential risk posed by multifamily mortgage fraud.

As of April 2024, management had concluded that the increase in mortgage fraud referrals warranted reporting fraud as an emerging risk to the Board's Risk Policy and Capital Committee. In reports to the Risk Policy and Capital Committee and the Audit Committee, management characterized multifamily mortgage fraud as an "emerging risk" and "key area of focus," respectively.

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<sup>8</sup> Real estate owned refers to a property or an interest in a property acquired by Fannie Mae through foreclosure. For more information, see Fannie Mae, [Fannie Mae's Multifamily Selling Guide](#) (accessed Sept 30, 2025).

<sup>9</sup> For more information, see Fannie Mae, [Fannie Mae Mortgage Fraud Prevention](#) (accessed Oct. 24, 2025).

<sup>10</sup> Fannie Mae resumed business with the mortgage brokerage company in 2025.

<sup>11</sup> According to Fannie Mae's Chief Operational Risk Officer, the recording of an accounting loss typically occurs two or three years after fraud identification, once remedies are exhausted.

## **Fannie Mae Adjusted the Allowance for Loan Losses to Account for Increases in Fraud Activity**

According to Fannie Mae, the allowance for loan losses methodology captures elements of fraud risk through its estimates of deteriorating loan performance. The methodology, however, does not always capture the full range of risks, including fraud risk, and is subject to adjustment based on changing market conditions.

For example, based on data from Fannie Mae’s Mortgage Fraud Investigations Team, the Multifamily Allowance Team concluded that the Multifamily CreditWorks model was underpredicting serious delinquency rates for loans originated between 2020 – 2023. These loans were underwritten in favorable market conditions and experienced property value decline as interest rates increased beginning in the second half of 2022, and experienced higher serious delinquencies than expected at loan origination.

Performance data reflects that multifamily loans originated between 2020-2023 represented the majority of loans with potential fraud. According to Fannie Mae, deteriorating market conditions magnify the negative effect of fraud because fraudulent borrowers are more likely to stop making mortgage payments given their knowledge that their actual financial strength is not what they represented to the lender at origination. As a result, the Multifamily Allowance Team implemented a “trends and conditions adjustment” of \$100 million to the allowance. Fraud investigation data in the fourth quarter of 2024 prompted another adjustment totaling \$333 million.

## **FHFA and the External Auditor Reviewed Fannie Mae’s 2024 Allowance for Multifamily Loan Losses and Did Not Raise Concerns About the Allowance for Loan Losses**

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, requires FHFA to conduct annual examinations of the Enterprises.<sup>12</sup> FHFA’s DER is responsible for carrying out examinations and ongoing supervision of Fannie Mae and Freddie Mac.

Fannie Mae’s Multifamily Allowance Team documents quarterly changes to the allowance for multifamily loan losses, and the support for those changes, in an internal memorandum.<sup>13</sup> The memorandum describes, for example, current market conditions, key estimates, adjustments, assumptions, forecasts, and models used. DER examiners review this memorandum in conjunction with their ongoing monitoring activities.

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<sup>12</sup> 12 U.S.C. § 4517(a).

<sup>13</sup> The memorandum is identified as the “SAB 119” memorandum. Further explanations of SAB 119 can be found here: [SEC.gov | Staff Accounting Bulletin No. 119](https://www.secdatabase.com/Staff-Accounting-Bulletin-No.-119)

During the 2022-2024 examination cycles, DER conducted five targeted examinations of risk areas that may impact Fannie Mae's calculation of the multifamily allowance for loan losses. For example, DER's Multifamily Risk Sharing examination identified weaknesses in the [REDACTED]. In another example, DER's Multifamily Fraud Risk Management examination identified multifamily [REDACTED]. Fannie Mae senior management is responsible for remediating these weaknesses, and the Board is responsible for overseeing that remediation.

DER also assessed the multifamily allowance for loan losses as part of its ongoing monitoring activities. It concluded that, consistent with Fannie Mae's quarterly assessment of the allowance during the 2022-2024 examination cycle, the company's multifamily earnings remained [REDACTED].

As described earlier, Fannie Mae's adjustments to the allowance go through several layers of review as part of the financial statement approval process. This includes Fannie Mae's external auditor, who conducts a risk assessment, tests internal controls, conducts walkthroughs, and communicates with the Audit Committee and FHFA as part of its audit. The external auditor also tests the process for determining the loan loss, which includes reviewing the underlying significant data inputs, assumptions, and model estimates, in addition to conducting other evaluations of the process. For each calendar year of our review period, the external auditor concluded that Fannie Mae's "[REDACTED] ... in the context of the consolidated financial statements taken as a whole."

DER does not review the underlying work performed by the external auditor. DER told us that, independent of the external auditor's findings, it has concluded that Fannie Mae's multifamily allowance for the applicable period was [REDACTED]. DER meets quarterly with the external auditor to exchange information regarding any relevant adverse findings DER issued, and any new information that may potentially impact the external auditor's conclusions.

## **Fannie Mae Took Steps in 2023 and 2024 to Improve Its Fraud Risk Management Framework**

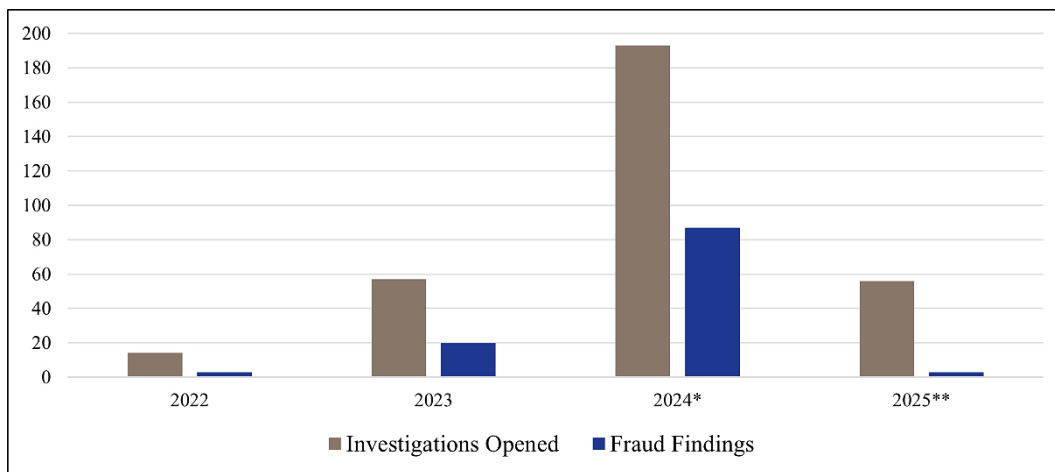
### ***Multifamily Mortgage Fraud Investigations***

According to Fannie Mae, it used data obtained through mortgage fraud investigations to improve its predictions of loan performance when it estimated the allowance for loan losses in 2024. Fannie Mae's Mortgage Fraud Investigations Division receives mortgage fraud tips from multiple sources, including mortgage servicers, borrowers, FHFA, and Fannie Mae units within the organization (e.g., credit portfolio management, credit analytics, compliance and ethics, and the multifamily and single-family lines of business). The Mortgage Fraud Investigations

Division considers certain information, such as inconsistencies in the information contained in the loan file, to be “red flags” that indicate a potentially fraudulent transaction. For example, income or expenses differing significantly from comparable properties may indicate potential mortgage fraud. Multifamily mortgage fraud tips, investigations, and findings increased in 2023 and 2024, and [REDACTED] for certain Fannie Mae multifamily mortgage fraud risk indicators.<sup>14</sup>

According to Fannie Mae, the number of multifamily mortgage fraud tips rose as it increased its awareness of fraud and suspicious activity. The majority of mortgage fraud findings identified came from tips submitted internally. Figure 3 shows the increase in multifamily mortgage fraud investigations opened, and the increase in fraud findings in 2024 compared to 2023 and 2022.<sup>15</sup>

**FIGURE 3. MULTIFAMILY MORTGAGE FRAUD INVESTIGATIONS OPENED AND FINDINGS JANUARY 2022 – JUNE 2025**



Source: Fannie Mae Mortgage Fraud Investigations data.

\* Fannie Mae attributed fraud and suspected fraud as a primary factor for the 2024 multifamily provision for loan losses.

\*\* 2025 Mortgage Fraud Investigations data as of June 13, 2025.

<sup>14</sup> In 2024, DER reported that multifamily risk indicators for fraud tips and fraud findings [REDACTED], respectively. These thresholds were [REDACTED]. DER emphasized the importance of [REDACTED]

<sup>15</sup> We produced Figure 3 based on an analysis of data provided by Fannie Mae, as of June 13, 2025. Results are based on the date the fraud tip case was opened by Fannie Mae Mortgage Fraud Investigations. Some fraud tips led to investigations and findings of multiple types of potential mortgage fraud. Tips that led to multiple findings are counted as a single tip, and every fraud finding is represented.

Fannie Mae's open multifamily mortgage fraud investigations increased significantly (from 14 in 2022 to 193 in 2024).<sup>16</sup> Fraud findings increased from 3 in 2022 to 87 in 2024. In contrast, more recent data reflect a significant decrease in fraud findings. Fannie Mae did not identify any potential fraud in its sample of 44 high-risk loans between September 2024 and January 2025. Fannie Mae told us that, as of July 2025, multifamily mortgage fraud tips and investigations were at 12-month lows. In its most recent quarterly SEC reporting, dated September 30, 2025, Fannie Mae did not identify mortgage fraud as a major factor in the provisioning for the multifamily allowance for loan losses.

### ***Fannie Mae Has Exercised Its Contractual Remedies with Lenders***

Fannie Mae's DUS lender agreements provide Fannie Mae with various remedies in the event mortgage fraud is identified. As of February 2025, Fannie Mae has imposed the following remedies on DUS lenders in response to fraudulent transactions:

- Three lenders were required to repurchase five loans.
- Three lenders were required to indemnify Fannie Mae on seven loans.
- One lender was required to increase its loss sharing on a single loan.
- Eight lenders were removed from preferred delegation and can no longer directly deliver loans to Fannie Mae.
- One lender is now subject to enhanced pre-review on loan deliveries.

### ***Fannie Mae Is Taking Steps to Enhance Its Fraud Prevention Controls***

In April 2025, DER reported that Fannie Mae had revamped its approach to financial crime investigations in order to increase consistency and better respond to emerging risks.<sup>17</sup> Fannie Mae told us that the Anti-Money Laundering/Bank Secrecy teams merged with the Mortgage Fraud Investigations team, and that the result will be improved information sharing and reporting

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<sup>16</sup> Fannie Mae Mortgage Fraud Investigations reviews every mortgage fraud tip it receives and determines if the tip is viable before investigating for fraud. Viable tips relate to loans that are owned by Fannie Mae and present a risk to the Enterprise. Fraud tips that relate to ongoing mortgage fraud investigations are added to the ongoing investigation.

<sup>17</sup> We did not assess the impact of Fannie Mae's changes to financial crime investigations as part of this evaluation.



of suspicious activities.<sup>18</sup> It also increased requirements for appraisals and hired more staff to review appraisals and property conditions.

Additionally, Fannie Mae implemented several controls to prevent fraudulent loans from being delivered to it, including expanded due diligence requirements on broker-sourced deals, lender training for over 3,100 participants, and a Restricted Vendor List to prevent vendors that pose an unacceptable risk from working on Fannie Mae loans. According to Fannie Mae, it also developed a new set of multifamily fraud risk indicators as part of a broader operational risk pilot in 2025.

## Conclusion

Fannie Mae identified a spike in multifamily mortgage fraud cases from late 2023 through 2024 and adjusted its allowance for loan losses to account for the increase in fraud activity. FHFA reviewed Fannie Mae’s allowance for loan loss methodology and found it to be reasonable. In its most recent quarterly SEC reporting, dated September 30, 2025, Fannie Mae did not identify mortgage fraud as a major factor in the provisioning for the multifamily allowance for loan losses. Although fraud is not currently considered a major risk factor in the multifamily allowance, this does not equate to an elimination of fraud risk. Mortgage fraud cannot be completely prevented; maintaining appropriate anti-fraud controls and constant monitoring of fraud indicators are essential to mitigating fraud risk.

## OTHER MATTER FOR CONSIDERATION.....

### DER Did Not Expressly Communicate to Fannie Mae That Certain Practices

FHFA adopted minimum standards for safe and sound operations for FHFA’s regulated entities, known as prudential management and operations standards (PMOS), in June 2012.<sup>19</sup> When DER issues one of its most severe adverse examination findings (known as a “critical supervisory matter”), DER leadership also determines whether the criticized practice failed to meet one of

<sup>18</sup> The Bank Secrecy Act requires financial institutions to submit Suspicious Activity Reports to report known or suspected violations of law or suspicious activity. Reports are made to the Department of the Treasury’s Financial Crimes Enforcement Network. For more information, see: FinCEN [Guidance on Preparing A Complete and Sufficient Suspicious Activity Report Narrative](#) (accessed October 27, 2025), and [A Quick Reference Guide for Money Services Businesses](#) (accessed October 27, 2025).

<sup>19</sup> FHFA codified these standards at 12 C.F.R. § 1236, Appendix A. For additional discussion of FHFA’s PMOS, see e.g., OIG, [FHFA’s Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director’s Statutory Duty to Ensure the Enterprises Comply with FHFA’s Guidelines](#) (Sept. 20, 2021) (OIG-2021-004) at 4.

the PMOS.<sup>20</sup> Practices that fail to meet PMOS, if severe enough, may constitute unsafe and unsound practices.<sup>21</sup> FHFA's Enforcement Policy provides that unsafe and unsound practices may result in formal enforcement actions by FHFA.<sup>22</sup>

#### ***DER Identified Practices That*** [REDACTED]

In conjunction with [REDACTED] of the targeted examinations conducted in 2023 and 2024, DER issued [REDACTED] to Fannie Mae. These findings required Fannie Mae to undertake immediate remediation actions. DER communicates examination findings to management of a regulated entity using conclusion letters and findings memoranda. DER followed existing policy in these [REDACTED] instances through the issuance of the letters (and memoranda) identifying the [REDACTED]. The issued letters, however, did not expressly inform Fannie Mae management that the practices criticized involved [REDACTED] PMOS.

We noted during our evaluation that DER typically informs an Enterprise when a PMOS standard is not met; however, DER examination policy does not explicitly require it. In contrast, FHFA's Division of Federal Home Loan Bank Regulation requires examiners to inform Federal Home Loan Bank management and board of directors when examiners determine that a practice does not meet one of FHFA's PMOS.

We acknowledge that the DER examination team communicated details of its examination findings to Fannie Mae management, as required by DER examination policy. As a result, Fannie Mae's management and Board were made aware of the issues, and Fannie Mae is remediating the findings. The then DER Examiner-in-Charge confirmed that DER should inform Enterprise management when an examination results in a critical supervisory matter and DER also determines there has been a failure to meet a PMOS.

Given the potential consequences of a failure to meet a PMOS, we agree with the then Examiner-in-Charge and advise that DER take appropriate steps to ensure that examination communications explicitly and consistently put Fannie Mae (or Freddie Mac) on notice of any failure to meet PMOS when issuing a critical supervisory matter.

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<sup>20</sup> FHFA explains its approach to adverse examination findings in Advisory Bulletin 2017-01, [Classifications of Adverse Examination Findings](#) (March 13, 2017). Per this bulletin, DER classifies examination findings by the nature or severity of the issues requiring corrective action (at 2). Critical supervisory matters pose substantial risk to the safety and soundness of the Enterprise (at 1).

<sup>21</sup> See 12 C.F.R. § 1236.4.

<sup>22</sup> Formal enforcement actions address the most serious supervisory problems that may have not been properly remediated through other means within an appropriate timeframe. Formal enforcement actions are disclosed to the public. For more information on formal and informal enforcement actions see: FHFA, Advisory Bulletin 2013-03, [FHFA Enforcement Policy](#) (May 31, 2013) at 4.

## **FHFA COMMENTS AND OIG EVALUATION.....**

We provided FHFA management with an opportunity to review and provide technical comments to a draft of this evaluation report. We considered those comments in finalizing this report. In its written response, FHFA management expressed that it was pleased with the report’s results. The response also acknowledged the report’s other matter for consideration, noting that management would consider updates to its internal guidance in 2026 to require language in conclusion letters whenever DER determines that there has been a failure to meet a PMOS. FHFA’s written response, in its entirety, is included in Appendix II of this report.

## APPENDIX I: METHODOLOGY.....

To meet our objective, we:

- Reviewed Fannie Mae SEC filings and Fannie Mae Board of Director’s meeting materials.
- Reviewed DER examination documents, reports of examination, risk assessments, supervisory plans, and examination policies to understand how Fannie Mae addressed potential fraud and how it impacts the loan loss allowance.
- Reviewed FHFA supervisory guidance relating to public financial disclosures, model risk management, and Enterprise examination practices.
- Reviewed information from Fannie Mae and DER regarding multifamily mortgage fraud investigations, multifamily mortgage fraud training, and fraud mitigation efforts.
- Reviewed Fannie Mae SAB 119 memoranda, presentations to the Board of Directors, and communications from the external auditor.
- Interviewed Fannie Mae officials to understand: (1) the development of the allowance for loan losses, (2) multifamily breach reviews, (3) the mortgage fraud investigation process, and (4) their initiatives to address and mitigate multifamily mortgage fraud risk.
- Interviewed DER personnel to understand: (1) DER’s supervisory actions to address multifamily deficiencies and emerging risks, (2) DER’s role in FHFA’s approval of Fannie Mae’s financials, and (3) DER’s examination work regarding models, the allowance for loan losses and multifamily mortgage fraud.

This evaluation was conducted between April 2025 and July 2025 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 (December 2020).

## **APPENDIX II: FHFA MANAGEMENT RESPONSE.....**

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# Federal Housing Finance Agency

## MEMORANDUM

TO: Angela Choy, Assistant Inspector General for Evaluations, Office of Inspector General

FROM: Christopher Bosland, Deputy Director, Division of Enterprise Regulation  
CHRISTOPHER BOSLAND Digitally signed by CHRISTOPHER BOSLAND  
Date: 2025.12.17 12:09:18 -05'00'

SUBJECT: Draft Evaluation Report: *FHFA Continues to Monitor and Assess the Adequacy of Fannie Mae's Allowance for Loan Losses in Its Multifamily Line of Business*

DATE: December 17, 2025

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Thank you for the opportunity to respond to the above-referenced Office of Inspector General (OIG) draft report (Report). The OIG evaluation assessed the Federal Housing Finance Agency's (FHFA) oversight of Fannie Mae's multifamily allowance for loan losses, including the provisioning for loan losses due to fraud, for the 2022, 2023, and 2024 examination cycles.

We are pleased that the Report found that FHFA has taken supervisory action to examine and assess Fannie Mae's multifamily allowance for loan losses, including fraud risk in its multifamily book of business, and that the Division of Enterprise Regulation (DER) appropriately reviewed and assessed the allowance each quarter. The Report made no recommendations.

The Report did note one matter for FHFA's consideration. In 2026, DER will consider updates to its internal guidance to require language in conclusion letters whenever DER determines that there has been a failure to meet a Prudential Management and Operations Standard.

I would like to acknowledge the professionalism and courtesy of the OIG staff who conducted this evaluation and thank you for your contributions to help the Agency improve its supervision program.

If you have any questions related to our response, please contact Eric Wilson.

cc: John Major  
Eric Wilson

## Federal Housing Finance Agency Office of Inspector General

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