Federal Housing Finance Agency
Office of Inspector General

Federal Housing Finance Agency Management and Performance Challenges for Fiscal Year 2026

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
400 7th Street SW, Washington, DC 20219

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MEMORANDUM

TO: William J. Pulte, Director, Federal Housing Finance Agency

FROM: John Allen, Acting Inspector General /s/

SUBJECT: Fiscal Year 2026 Management and Performance Challenges

Pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), we are providing our perspective on the most serious management and performance challenges facing the Federal Housing Finance Agency (FHFA or the Agency) in fiscal year (FY) 2026 and the Agency's progress in addressing those challenges. This memorandum is based on Office of Inspector General (OIG) work and a review of public and non-public information, including data obtained from Fannie Mae and Freddie Mac (the Enterprises) and the 11 Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities).[1] It includes risk areas identified in prior years that continue to constitute serious management and performance challenges, as well as one new risk area that merits attention.

The following are the most serious management challenges identified for FY 2026:

1. Managing risks in the Enterprises' multifamily lines of business;

2. Managing vulnerability within FHFA's information security programs and at the regulated entities;

3. Addressing human capital risk at FHFA (previously reported as "people risk");

4. Overseeing the regulated entities' reliance on counterparties and third parties; and

[1] The Office of Finance is a part of the FHLBank System, which includes the 11 FHLBanks. The U.S. Financial Technology, LLC (U.S. FinTech), previously known as Common Securitization Solutions, LLC, is an affiliate of the Enterprises. References to the "regulated entities" in this document should be read to also apply to the Office of Finance and U.S. FinTech.

5. Creating and maintaining records justifying key management decisions (new challenge).

Please note that two challenges reported in our prior year memorandum are no longer considered topmost concerns in FY 2026. First, we have removed "supervising the regulated entities' model risk management" as a primary challenge. We have done so because FHFA's examinations and reviews conducted by independent entities retained by the Enterprises have not identified weaknesses attributable to shortcomings in model risk governance that expose the Enterprises to material financial losses. Second, we have removed the challenge related to "achieving certain supervisory goals for the FHLBank System and member credit risk management," as we have determined that this challenge has abated. Specifically, we found that following high-profile bank failures in the spring 2023, FHFA engaged with FHLBanks to emphasize the importance of managing credit risk by ensuring that member banks have the ability to repay advances through operating earnings, rather than providing advances primarily based on collateral. This engagement has addressed the primary impediment to the achievement of the credit risk management supervisory goal.

While certain challenges may be inherent to FHFA's mission, this memorandum highlights the more significant difficulties noted from our oversight work, as well as the Agency's progress in addressing those challenges.

Challenge 1: Managing Risks in the Enterprises' Multifamily Lines of Business

The Enterprises' multifamily businesses provide liquidity to the mortgage market and contribute to the achievement of FHFA's affordable housing goals and conservatorship objectives. As of second quarter 2025, the combined multifamily portfolios exceeded $976 billion. The Enterprises' new business volumes for the year 2024 totaled $120.2 billion. FHFA's 2024 Report to Congress acknowledged that, at the end of calendar year 2024, both Enterprises lacked adequate capital to support the risks associated with their business models and did not meet minimum regulatory capital requirements established by FHFA.

Fraud is a serious risk in the multifamily market. Investigations conducted by the OIG Office of Investigations (OI) and partner law enforcement agencies identified a range of fraud schemes focused on multi-family financing. For example, in FY 2025, OI, working with other law enforcement partners, successfully prosecuted a significant multifamily case involving real estate investors who deceived lenders into fraudulently funding multifamily and commercial mortgage loans; filed charges in additional multifamily investigations; and initiated several new cases concerning allegations of fraudulent loans purchased by the Enterprises to finance multifamily properties. Steps taken by the Enterprises also reflect increased awareness of fraud in the multifamily market. For example, Fannie Mae's 10-K for 2024 disclosed a multifamily provision for credit losses of $752 million that management attributed, in part, to potential mortgage fraud. Similarly, other lenders have reported increasing provisions for credit losses and charge-offs associated with suspected multifamily mortgage fraud.

The FHFA Director has a statutory duty to ensure that the Enterprises' multifamily businesses operate in a safe and sound manner and comply with FHFA's regulations and prudential management and operations standards. FHFA reported to Congress in June 2025 that the Agency identified several areas "that require further improvement," and listed multifamily risk management among those areas.

Why This is a Challenge

Multifamily transactions currently account for billions of dollars a year in business for the Enterprises. According to FHFA, multifamily markets continue to have a heightened fraud risk because of the economic pressure from tighter markets, higher expenses, and higher interest rates. Yet, despite the elevated risks, the capital of both Enterprises remains below FHFA's regulatory requirements. It is also at a time when FHFA considers the Enterprises' risk management practices to be unsatisfactory. This environment presents a serious challenge to FHFA's ability to ensure that the Enterprises operate in a safe and sound manner.

FHFA's Progress in Addressing this Challenge

In 2024, the Division of Enterprise Regulation (DER) examined a number of multifamily-related topics at the Enterprises, including multifamily asset management, multifamily spread risk, multifamily mortgage fraud risk management, multifamily business automation, multifamily counterparty risk, and multifamily seller/servicer oversight. DER's 2025 supervision plan has scheduled examination work in the areas of, among other things, multifamily credit risk management, multifamily enterprise risk management, and multifamily servicer risk management. DER has issued adverse examination findings and monitored the Enterprises' remediation of those findings.

Select OIG Report Related to the Enterprises' Multifamily Businesses:

> *FHFA Has Taken Supervisory Actions to Address Multifamily Risk Management Deficiencies at Freddie Mac, but Current Market Conditions Present Challenges* (EVL-2025-002, March 6, 2025)

Select OIG Criminal Investigation on Multifamily Fraud:

> *Four Real Estate Investors Sentenced in Multimillion-Dollar Loan Scheme* (Press Release, April 1, 2025)

Challenge 2: Managing Vulnerability within FHFA's Information Security Programs and at the Regulated Entities

FHFA's regulated entities are important components of the U.S. housing finance system and interconnect with other financial institutions and counterparties. As part of their business processes, the regulated entities store and transmit highly sensitive private information about borrowers and businesses, including financial data and personally identifiable information (PII). Protecting this information is critically important and reflects an ongoing challenge to FHFA and the regulated entities. Unfortunately, but perhaps not unexpectedly, the regulated entities continue to face the threat of cyberattacks.

The threat landscape in this area is ever-changing, requiring constant vigilance and monitoring. FHFA has engaged in oversight of cybersecurity at the regulated entities and assessed that cybersecurity continues to be an operational risk. Similarly, the Agency assessed that operational risk levels remained moderately elevated at the FHLBanks because of ongoing information technology initiatives, and examiners identified areas that exhibited or posed unacceptable operational risk in information security management.

In addition to FHFA's oversight of the regulated entities' cybersecurity posture, FHFA must also ensure the effectiveness of its own information security program. In this regard, FHFA collects and manages sensitive information, including PII, which FHFA must safeguard from unauthorized access or disclosure.

Vulnerability management is an essential component of information security programs that includes both regular vulnerability assessments and the timely remediation of vulnerabilities that exceed an entity's risk appetite. Without consistent and adequate vulnerability management, hackers could exploit vulnerabilities to take control of systems and perform a denial-of-service attack or gain unauthorized access to modify systems and data. Vulnerabilities that remain un-remediated over an extended period increase the exposure and likelihood that the confidentiality, integrity, and availability of systems and data can be compromised.

Why This is a Challenge

Regulated Entities

In its 2024 Report to Congress, FHFA reported that "Fannie Mae's exposure to information security risk persisted because of both elevated levels of cyber threats and opportunities for improvement in information security risk management." Additionally, Freddie Mac continues to work on matters related to information security, data management, and model risk. While both Enterprises employ information security programs, operational risks remain elevated given increased exposure to cybersecurity threats. In addition to the Enterprises, the FHLBanks continued to face moderately elevated cyber and information security risk. FHFA examiners identified areas that exhibited or could exhibit unacceptable operational risks in identity and access management controls, insufficient data center failover testing, and application security management, among other cybersecurity areas.

FHFA

Pursuant to Federal Information Security Modernization Act of 2014 (FISMA),[2] OIG contracts with an independent public accountant (IPA) to conduct independent evaluations of FHFA's information security programs and practices. Since FY 2023, FHFA has not completed remediation of several previously identified and past-due exploitable vulnerabilities. In the FY 2023 evaluation, the IPA noted that FHFA did not fix 1,716 out of 2,820 vulnerabilities within 14 days of discovery, as required by the Cybersecurity and Infrastructure Security Agency (CISA) and FHFA's Vulnerability Management Process. FHFA acknowledged its failure to correct most of the identified vulnerabilities. By FY 2025, the IPA reported that FHFA was tracking the remediation of past due exploitable vulnerabilities on a quarterly basis but with no estimated completion dates.

In other audit work, we noted that exploitable vulnerabilities persist. Our FY 2024 audit of the Agency's security controls found that they were ineffective for protecting FHFA's network and information systems against internal threats. Penetration testing demonstrated that the Agency's network has serious vulnerabilities that increase the likelihood that hacking attempts will succeed. Our auditors were able to gain access to a privileged user account that allowed them to view, edit, or save files on the local drives of any user's laptop or desktop, including FHFA executives at the highest levels. The auditors were also able to elevate a standard user account to a domain administrator and take full control of FHFA's network. In all, we identified a total of 3,318 potentially exploitable vulnerabilities on FHFA's servers, workstations, and other devices of which 64 percent were critical.

In another audit, we found that FHFA did not effectively plan its FY 2025 Disaster Recovery Exercise for recovering one of its systems. In addition to FHFA's contingency planning documents missing required elements or including outdated information, the Agency did not encrypt its backup data-at-rest residing at its alternate site and did not have documented compensating controls. Without encryption of data-at-rest, FHFA's information residing at its alternate site could be at risk of unauthorized disclosure and modification. Furthermore, this could expose the system to cyber threats, including data breaches, identity theft, and other cybercrimes, which can have severe legal and financial consequences.

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[2] FISMA requires agencies to develop, implement, and document an agency-wide information security program and practices. The Act also requires Inspectors General to conduct an annual independent evaluation of their agencies' information security programs and practices.

In addition to remediating weaknesses identified in audits, FHFA faces challenges in migrating data to a new cloud-based infrastructure. FHFA established a cloud platform and initiated the migration of critical data from aging onsite hardware to the new cloud-centric infrastructure. The cloud platform utilizes new data management standards to improve data storage, data discoverability, performance, and scalability. FHFA acknowledged challenges with migrating data to the new cloud platform in its FY 2024 Performance and Accountability Report noting that an infrastructure upgrade and data migration of this magnitude involves challenges that accompany a legacy system redesign as well as a range of potential risks such as data loss, information technology system or network unavailability, and increased cybersecurity risk.

FHFA's Progress in Addressing this Challenge

Regulated Entities

As reported in FHFA's 2024 Report to Congress, the Enterprises continue to address and improve operational matters to include, among other things, information technology risk, information security, and data management. FHFA encourages the regulated entities to pursue various avenues for discovering and mitigating vulnerabilities such as engaging in penetration testing exercises, establishing frameworks to perform threat modeling, and participating in a vulnerability disclosure program to learn of vulnerabilities through external parties.

The Enterprises each continued to implement technology solutions to protect the security and confidentiality of sensitive information and to respond to emerging cybersecurity threats. Several FHLBanks continued to evolve their information security and cybersecurity controls to address existing and potential risks by improving software security patching, hardening access, enhancing user access management, and increasing staff awareness and training related to increasingly sophisticated social engineering tactics.

FHFA

As noted above, FHFA's Office of the Chief Information Officer started tracking past due exploitable vulnerabilities on a quarterly basis in FY 2025. Despite these efforts, FHFA still carries many unresolved vulnerabilities with no estimated completion dates for remediation. Some vulnerabilities now span three fiscal years, demonstrating persistent challenges in remediating them. In addition, implementation of recommendations to address recent audit findings, including the FY 2024 audits of the Agency's security controls and its Disaster Recover Exercise, remain in progress.

Select OIG Reports Related to Vulnerability Management:

Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2025 (AUD-2025-004, July 30, 2025)

FHFA's Disaster Recovery Exercise for Its General Support System Needs Improvement (AUD-2024-010, September 25, 2024)

FHFA's Security Controls Were Not Effective to Protect Its Network and Systems Against Internal Threats (AUD-2024-007, August 12, 2024)

Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2024 (AUD-2024-006, July 30, 2024)

Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2023 (AUD-2023-004, July 26, 2023)

Challenge 3: Addressing Human Capital Risk at FHFA

In order to achieve FHFA's broader mission, the Agency must have a workforce that possesses the requisite skills. It is imperative to recruit, develop, and maintain a workforce that possesses the skills to, among other things, satisfy statutory requirements (for example, establish capital requirements, set annual housing goals, and conduct annual onsite examinations) and achieve the strategic goals established by the FHFA Director.

Why This is a Challenge

One of FHFA's strategic goals is to position the Agency as a model of operational excellence by strengthening its workforce and infrastructure. In prior years, we have reported on needed improvements to FHFA's workforce planning, particularly related to its examination function, and instances in which FHFA may not have the workforce needed to discharge certain statutory responsibilities.

The Agency's ability to fulfill its mission, meet its strategic goals and objectives, and achieve operational success depends on its personnel and their collective skills. Like other federal agencies, FHFA has reduced the size of its workforce as required under applicable executive orders. This reduction in personnel included executives, managers, and other staff directly involved in mission-related activities. FHFA management now faces serious challenges as it adapts the organization's operations and practices to the Agency's smaller size and change in composition. This challenge is a follow-on to the prior year's management and performance challenge, *Addressing People Risk at FHFA and at the Regulated Entities*.

Although human capital management within FHFA presents a significant challenge, we do not consider human capital management at the regulated entities to be as serious a challenge for the Agency in FY 2026 as reported in our prior year memorandum. While there have been changes in personnel, including the Chief Executive Officer at Freddie Mac, management teams at the regulated entities are largely intact. Moreover, these teams were not the subject of serious adverse examination findings as of June 2025.

FHFA's Progress in Addressing this Challenge

FHFA previously advised us that it had initiated actions designed to improve the Agency's workforce planning and completed actions to address hiring issues. The Agency's organizational structure has changed over the past year, and management personnel have changed as well. In addition, our audit recommendation to FHFA's Division of Federal Home Loan Bank Regulation (DBR) to perform an Affordable Housing Program workforce planning analysis to determine current and future examination needs and address any identified staffing gaps remains open. It is premature to assess the Agency's progress beyond these actions at this time. We note that FHFA has a Workforce Planning Policy in place that established a process to ensure alignment with strategic objectives, identify workforce gaps, and develop and implement strategies to recruit, hire, develop, engage, and retain high quality talent.

Select OIG Reports Issued Related to Addressing Human Capital Management

The Division of Federal Home Loan Bank Regulation Followed Its Guidance in Performing Annual Examinations of Each Federal Home Loan Bank's Affordable Housing Program but the AHP Examination Planning Processes Require Improvement (AUD-2023-001, February 9, 2023)

FHFA Could Enhance the Efficiency of the Agency's Oversight of Enterprise Executive Compensation by Ensuring Sufficient Human Capital Resources and Updating Procedures (EVL-2022-003, September 27, 2022)

Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely (EVL-2020-001, March 25, 2020)

Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac (AUD-2020-004, February 25, 2020)

Challenge 4: Overseeing the Regulated Entities' Reliance on Counterparties and Third Parties

FHFA continues to face challenges overseeing the regulated entities' reliance on counterparties for business-critical matters. The regulated entities are exposed to counterparty risk when they engage in business transactions with institutions such as sellers, servicers, mortgage insurers and reinsurers, among others. Further, regulated entities are exposed to counterparty risk when they outsource critical operational and information technology functions to third-party providers.

Counterparty risk occurs when (a) a counterparty deteriorates in creditworthiness before a transaction settles, or defaults on amounts owed (also known as counterparty credit risk); or (b) a third-party provider does not perform as expected.

Why This is a Challenge

The regulated entities' continued reliance upon counterparties and third parties presents a persistent challenge because FHFA lacks statutory authority to supervise those parties directly. Some challenges to note:

- Institutional counterparty defaults on its obligations could negatively impact a regulated entity's ability to operate.
- The private mortgage insurance industry, which accounts for the largest portion of the Enterprises' counterparty risks, is concentrated in a few monoline providers which face risk due to a lack of diversification.
- The regulated entity's reliance on nonbank seller/servicers presents risk from the monoline nature of their activities, heavy reliance on the availability of external financing, and lack of strong regulatory oversight.
- The regulated entities rely on third-party service providers for a wide range of services, some of which are critical to their operations. These third-party service providers are subject to risks that arise from factors such as: the complexity of the arrangement, the volume or type of product or service provided, the criticality of service provided, access and/or storage of sensitive data, and a third-party's potential use of subcontractors ("fourth parties").
- OIG's criminal investigations have included numerous cases over time of alleged fraud by various counterparties and third parties, reinforcing the need to ensure strong controls to prevent fraud.

While FHFA oversees the regulated entities themselves, including, but not limited to, their risk management, it has no regulatory authority over counterparties and third parties. Therefore, FHFA has only a limited ability to oversee risks to the regulated entities arising from their reliance upon them. FHFA reported this limitation in its annual report to Congress. With respect to the Enterprises, FHFA relies on conservatorship authority to require that the Enterprises include provisions in their third-party contracts to grant FHFA access to information about service providers; and, as conservator, exercises the Enterprise's contractual audit rights to obtain necessary information to fulfill FHFA's statutory safety and soundness responsibilities. FHFA does not have similar authority with regard to the FHLBanks, as they are not in conservatorship. Both the Government Accountability Office and the Financial Stability Oversight Council recognized challenges related to third parties and have recommended that Congress provide FHFA authority to examine third parties that do business with the regulated entities similar to that conferred upon the federal banking agencies through a provision in the Bank Service Company Act.[3]

FHFA's Progress in Addressing this Challenge

FHFA acted to mitigate risks associated with the regulated entities' reliance on counterparties and third parties. For more than five years, DER has identified third-party oversight as a supervisory priority. Third-party risk management has been a point of emphasis in DER's supervisory planning, so each DER examination team's consolidated ongoing monitoring activity was to include work on that topic. According to FHFA, single-family seller/servicers remain a focus of Enterprises' counterparty risk oversight efforts because of the potential credit and operational risks associated with them. Further, DER timely addressed audit recommendations that it develop and implement written policies and procedures for conducting reviews of nonbank seller/servicers, and to guide the risk monitoring and analysis process.

The Agency continued its use of the Suspended Counterparty Program, which FHFA established to help protect the regulated entities from individuals and entities with a history of fraud or other financial misconduct. Under this program, FHFA may issue orders suspending an individual or entity from doing business with the regulated entities. FHFA reported having issued five suspension orders in FY 2025 so far, which is 80 percent less than the 24 suspension orders it issued in FY 2024. While FHFA staff continues to receive and process referrals, suspension orders have been temporarily delayed as FHFA conducts a comprehensive review of FHFA regulations, including suspended counterparty regulations, in response to recent court decisions and executive orders. It is anticipated that FHFA staff will finalize more suspension orders in the coming months. In FY 2023, FHFA had proposed to amend the existing Suspended Counterparty Program regulation to expand the categories of covered misconduct on which a suspension might be based, to include sanctions arising from certain forms of civil enforcement. After considering comments, the Agency published a second proposed rule to address a number of material changes deemed necessary. This rulemaking remains pending.

[3] *See* https://www.fhfa.gov/document/fhfa-2024-annual-report-to-congress.pdf

Select OIG Reports Related to Counterparty or Third-Party Issues

DBR's Oversight Was Sufficient to Ensure That FHLBanks Managed Mortgage Servicer Risks But Examiners Did Not Follow Steps Outlined in Its 2023 Supervisory Priorities (AUD-2025-003, March 28, 2025)

2025 Update of Mortgage Insurers as Enterprise Counterparties (WPR-2025-001, March 19, 2025)

Select OIG Criminal Investigations Related to Counterparty and Third-Party Matters

Title-Company-Owner-Pleads-Guilty-To-Wire-Fraud (Press Release, May 30, 2025)

Kissimmee-Real-Estate-Broker-Sentenced-For-Bank-Fraud (Press Release, April 30, 2025)

Four-Real-Estate-Investors-Sentenced-in-Multimillion-Dollar-Loan-Scheme (Press Release, April 1, 2025)

Self-proclaimed "Short Sale Queen" and Associates Indicted in Federal Mortgage Fraud Scheme (Press Release, December 3, 2024)

Three-Bay-Area-Real-Estate-Professionals-Sentenced-to-Federal-Prison-for-Their-Roles-in-$55-Million-Mortgage-Fraud-Conspiracy.pdf (Press Release, November 26, 2024)

Challenge 5: Creating and Maintaining Records Justifying Key Management Decisions (New)

FHFA's regulated entities control approximately $9 trillion in assets, which the Agency bears significant responsibility for overseeing. FHFA conducts a broad range of regulatory and conservatorship activities and makes decisions that involve complex supervisory examinations and determinations to meet the Agency's strategic goals and objectives. Maintaining records of such decisions is not only a requirement but will improve accountability and transparency, among other things. As such, FHFA included accountability and transparency in its work as a core value.

Why This Is a Challenge

Over time, OIG has made findings and recommendations addressing gaps in the Agency's record-keeping practices covering a wide variety of Agency activities such as examinations, housing policy, personnel management, IT security, and conservatorship decisions. There were several underlying reasons that Agency documentation was found insufficient such as personnel's failure to follow existing policies and procedures; immature operating processes and lack of clarity in policies and procedures; staff turnover; or lack of a centralized document repository. Taken together, these matters present continuing challenges with the Agency's records management practices over time.

FHFA's Progress in Addressing This Challenge

FHFA has implemented several of OIG's recommendations leading to improvement in its records management in some areas. For example, the Agency has updated policies and procedures to enhance documentation requirements for certain supervision, conservatorship and IT security activities, and conducted training on related documentation and recordkeeping responsibilities. However, in recent reports (listed below), OIG continued to identify issues with the documentation of FHFA's activities and decisions, including specific deficiencies in examination documentation, and more general concerns with examination documentation standards. Corrective actions to address the recommendations in these reports remain outstanding. Accordingly, we believe that records management—and, by extension, accountability and transparency — remains a challenge for the Agency.

Select OIG Reports Related to FHFA's Creation and Maintenance of Records Justifying Key Management Decisions

DBR's Oversight Was Sufficient to Ensure That FHLBanks Managed Mortgage Servicer Risks But Examiners Did Not Follow Steps Outlined in Its 2023 Supervisory Priorities (AUD-2025-003, March 28, 2025)

Freddie Mac Did Not Follow State Instructions When Filing Complaints Against Residential Real Estate Appraisers (EVL-2025-001, December 9, 2024)

DER's Supervision and Oversight of the Enterprises' Purchases of Single-Family Loans in Special Flood Hazard Zone Areas Were Effective, But Improvements Are Needed (AUD-2024-009, September 18, 2024)

Conclusion

A primary objective of this memorandum is to provide FHFA with an objective assessment of key challenges to inform its management and mitigation of operational risks, both internal to the Agency and within the regulated entities. We are encouraged by FHFA's commitment to addressing key challenges, and the progress it has made to mitigate or resolve some of the challenges we have identified in our previous year's challenges memorandum. Continued vigilance by FHFA in these efforts is essential. To assist FHFA in addressing the management and performance challenges identified in this memorandum, OIG's FY 2026 audits and evaluations will focus on these areas. We will strive to continue providing FHFA with constructive and actionable recommendations.[4]

[4] *See* https://www.fhfaoig.gov/Reports/AuditAndEvaluationPlan.