



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2019, through March 31, 2020



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## Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, and the American people. The FHFA Office of Inspector General (OIG) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and holds accountable those, whether inside or outside of the federal government, who waste, steal, or abuse funds in connection with the Agency, Fannie Mae and Freddie Mac (the Enterprises), or any of the Federal Home Loan Banks (FHLBanks).

## Our Mission

OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust law enforcement efforts to protect the interests of the American taxpayers.

## Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we endeavor to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they lead—without fear or favor, report findings that are supported by sufficient evidence in accordance with professional standards, and recommend actions tied to our findings. Our work is independent, risk based, relevant, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view

our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the FHLBanks in its role as supervisor, and its operation of Fannie Mae and Freddie Mac in its role as conservator).

Because FHFA has been placed in the extraordinary role of supervisor and conservator of the two Enterprises, which support over \$5 trillion in mortgage loans and guarantees, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises are satisfying their delegated responsibilities and that taxpayer monies are not wasted or misused.

We emphasize transparency in our oversight work to the fullest reasonable extent and in accordance with our statutory obligations to foster accountability in the use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator, and the need for corrective action.

Report fraud, waste, or abuse by visiting [www.fhfa.ig.gov/ReportFraud](http://www.fhfa.ig.gov/ReportFraud) or calling (800) 793-7724.



# Snapshot of OIG Accomplishments

Semiannual Reporting Period  
October 1, 2019–March 31, 2020

Reports Issued	19
Includes audits, an evaluation, compliance reviews, a special report, a management advisory, and white papers	
Recommendations Made, Reaffirmed, or Reopened	22
Questioned Costs	\$80,985
Investigative Activities:	
Indictments / Charges	42
Arrests	32
Convictions / Pleas	29
Sentencings	42
Suspension / Debarment Referrals to Other Agencies	34
Suspended Counterparty Referrals to FHFA	20
Investigative Monetary Results:	
Criminal Restitution	\$205,951,889
Criminal Fines / Special Assessments / Forfeitures	\$11,877,631
Civil Settlements	\$3,003,300,000
Investigations Total Monetary Results*	\$3,221,129,520

\*Includes money ordered as the result of joint investigations with other law enforcement organizations.

# A Message from the Inspector General

I am pleased to present this Semiannual Report on the operations of OIG, which covers the period from October 1, 2019, to March 31, 2020.

FHFA has unique responsibilities in its dual roles as conservator and supervisor of the Enterprises and as supervisor of the FHLBanks. Despite their high leverage, limited capital buffer, conservatorship status, and uncertain future, the Enterprises' guarantee portfolios have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 60%. As of December 31, 2019, the Enterprises collectively reported more than \$5.7 trillion in assets. As conservator of the Enterprises, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue, and makes business and policy decisions that influence and affect the entire mortgage finance industry. Additionally, as of December 31, 2019, the FHLBanks collectively reported almost \$1.1 trillion in assets.



Laura S. Wertheimer  
Inspector General

Given FHFA's dual responsibilities and the size and complexity of the entities it regulates, our responsibilities are broader than those of OIGs for other prudential federal financial regulators, and we structure our oversight program accordingly. Our work is risk-based and most of it is focused on the four [management and performance challenges](#) and a management concern facing FHFA, the Enterprises in its conservatorship, and the entities it regulates.

We have established a rigorous process to develop oversight projects based on risk. Once we begin an oversight project, we follow the facts, wherever they lead, without fear or favor. During this semiannual period, we also addressed discrete but significant issues facing FHFA, including the security of its internal computer systems and networks and the integrity of its procurement awards process.

We are a trusted change agent because of our demonstrated independence and objectivity: we ask difficult questions and are not persuaded by rote answers; we critically assess the evidence we obtain during our fieldwork; we report findings that are supported by sufficient evidence in accordance with professional standards; and we recommend practical solutions tied to our findings. Through our audits, evaluations, and compliance reviews, we challenge FHFA to improve its oversight over its conserved entities, enhance its supervision, put more rigorous internal controls

into place, and look for and eliminate fraud, waste, and abuse. Our work is independent, relevant, and timely.

During this semiannual period, we published 19 reports, including audits, an evaluation, compliance reviews, a special report, a management advisory, and white papers, which are available on [our website](#), and on [Oversight.gov](#), a publicly accessible, searchable website containing the latest public reports from federal Inspectors General who are members of the Council of the Inspectors General on Integrity and Efficiency. These 19 reports illustrate the broad scope of our oversight responsibilities.

Where our fact-finding identifies shortcomings, deficiencies, or processes that could be upgraded, our reports include actionable recommendations to assist FHFA in improving the effectiveness and efficiency of its operations. For this semiannual period, we issued 19 new recommendations, reaffirmed two, and reopened one. Appendix B of this report summarizes all recommendations made or reopened by OIG during this period, recommendations made in prior periods that remain open (and unimplemented), and closed, unimplemented recommendations. During each reporting period, we update information in Appendix B as new recommendations are issued or recommendations are closed, and we publish the updated information monthly in a [Compendium of Open Recommendations](#) on our website. Although we summarize each of these 19 reports and many of our investigations in this Semiannual Report to Congress, I include below highlights from three of these reports, each of which underscores our commitment to improve the economy and efficiency of FHFA's supervision of the Enterprises.

- We conducted an audit to determine whether, over the last five years, FHFA fulfilled its commitment to adopt and implement a systematic supervisory workforce planning process. FHFA acknowledged to us that, despite its commitment to do so in 2013, it had not engaged in a planning process to determine whether it has the right staff size and skill mix to conduct its statutory supervisory responsibilities. We found that FHFA's failure to conduct workforce planning combined with its persistent failure to complete targeted examinations in the cycle for which they were planned, raised significant questions about its capacity to supervise the Enterprises. [\*FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of the Enterprises.\*](#)
- We assessed, in an evaluation, FHFA's performance of targeted examinations of "high risk" models used by the Enterprises. The Enterprises rely heavily on models to measure and monitor risk exposures and make business decisions. Since its inception, FHFA has recognized the risks from use of the Enterprises' high-risk models. In its first annual report to Congress after placing the Enterprises in conservatorship, FHFA reported that at the start of 2008, many of the Enterprises' credit risk models "substantially under-predicted credit losses" and "improvements came too late, after hundreds of billions of dollars in

risky loans had already been acquired or guaranteed.” Despite FHFA’s recognition of the significant risks from the Enterprises’ use of more than 100 “high-risk” models, we found that FHFA planned only a few targeted examinations of high-risk models (roughly 3% of those annually over six examination cycles) and completed a fraction of those examinations during the cycle for which they were planned. [\*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.\*](#)

- Since October 2014, we have issued more than 40 reports on FHFA’s supervision program for the Enterprises, 34 of which, taken collectively, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. As this body of work has demonstrated, the problems that beset FHFA’s supervision program for the Enterprises are long-standing and they have not been remediated effectively by the Agency. In light of the announcement by the current FHFA Director that the Enterprises may emerge from conservatorship as early as 2021, and FHFA’s recognition that its capacity to supervise the Enterprises must be “on par with that of other independent federal financial regulators” before releasing them from conservatorship, we sought to assist FHFA leadership in its efforts to rebuild FHFA’s supervision program for the Enterprises. We summarized the chronic and pervasive deficiencies that we previously identified in these 34 reports, organized by four programmatic elements. We reported previously that FHFA struggled to complete remediation of chronic and pervasive deficiencies in a timely manner, or abandoned, not fully completed, or completed in form but not substance actions it undertook to remediate these deficiencies. Consequently, the challenge now facing FHFA to rebuild its supervision program is formidable. We cautioned stakeholders that, absent completion of meaningful remediation of deficiencies in its supervision program, FHFA may be unable to meet its statutory responsibilities to ensure the safe and sound operation of the Enterprises. [\*FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac.\*](#)

Through our robust law enforcement efforts, we protect the interests of the American taxpayer and work collaboratively with our law enforcement colleagues in other agencies. During this reporting period, we conducted a number of significant investigations involving a range of criminal and civil allegations. Among these significant investigations is our investigation into allegations of fraud and other criminality involving multifamily projects in the Buffalo and Rochester, New York, areas. To date, our efforts, in partnership with other law enforcement agencies, resulted in guilty pleas by several individuals to federal fraud charges. This investigation has now broadened to involve additional multifamily projects and potential greater risk to the Enterprises.

Through our written reports and our law enforcement efforts, we hold institutions and individuals accountable for their actions or inactions. The work described in this Semiannual Report

demonstrates the importance of the effective, fair, and objective investigative oversight conducted by this Office, and our commitment to our mission.

The accomplishments described in this Semiannual Report are a credit to the talented and dedicated career professionals that I have the privilege to lead.

Laura S. Wertheimer  
Inspector General  
March 31, 2020

# Executive Summary

## Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**. HERA charged FHFA to serve as regulator and supervisor of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)** (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. HERA also enhanced FHFA's resolution authority to act as conservator or receiver.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the U.S. Department of the Treasury (Treasury) entered into a **Senior Preferred Stock Purchase Agreement (PSPA)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have invested nearly \$191.5 billion in the Enterprises since 2008. As conservator of the Enterprises, FHFA succeeded to all rights, titles, powers, and privileges of the Enterprises, and of any stockholder, officer, or director of the Enterprises. FHFA is authorized under HERA to:

- Operate the Enterprises and
- Take such action as may be:
  - Necessary to put the Enterprises in a sound and solvent condition and
  - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.<sup>1</sup>

Initially, the conservatorships were intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their twelfth year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity. Since September 2008, FHFA has served in the unique role of both conservator and supervisor of the Enterprises and supervisor of the FHLBank System.

HERA also authorized the establishment of OIG to oversee the work of FHFA pursuant to the **Inspector General Act of 1978**. OIG began operations in October 2010 when its first Inspector General was sworn in. As a result of FHFA's dual responsibilities as supervisor of the Enterprises and the FHLBanks, and, since 2008, as conservator of the Enterprises, OIG's oversight responsibilities are correspondingly broader than those of an Office of Inspector General for other prudential federal financial regulators.

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<sup>1</sup> [12 U.S.C. § 4617\(b\)\(2\)\(A\), \(B\), \(D\)](#) (2020).

Our mission is to promote economy, efficiency, and effectiveness and protect FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system, and advising the Director of the Agency, Congress, and the public on our findings and recommendations. In doing so, we further the Agency's statutory obligation to ensure that the regulated entities operate in a safe and sound manner and that their operations foster liquid, efficient, competitive, and resilient national housing finance markets. We also engage in robust law enforcement efforts to protect the interests of the regulated entities and the American taxpayers.

OIG's operations are funded by annual assessments that FHFA levies on the Enterprises and the FHLBanks pursuant to 12 U.S.C. § 4516. For **Fiscal Year (FY) 2020**, OIG's operating budget remained at \$49.9 million.

## This Report

This Semiannual Report to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of October 1, 2019, to March 31, 2020. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 19 audits, evaluation, compliance reviews, special report, management advisory, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 42 indictments/charges, 29 convictions/pleas, and 42 sentencing of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; more than \$217 million in criminal restitutions, fines, special assessments, and forfeitures; and more than \$3 billion in civil settlements.
- Summarizes OIG's outreach during the reporting period; and
- Reviews the status of OIG's recommendations.

Terms and phrases in bold are defined in Appendix K, *Glossary and Acronyms*. If you are reading an electronic version of this Semiannual Report, then simply move your cursor to the term or phrase and click for the definition.

# OIG's Oversight

## OIG's Risk-Based Oversight Strategy

Currently, FHFA serves as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their twelfth year, are of unprecedented scope, scale, and complexity. FHFA's dual roles continue to present unique challenges. Consequently, OIG must structure its oversight program to examine FHFA's exercise of its dual responsibilities, which differ significantly from the typical federal financial regulator. Beginning in Fall 2014, OIG determined to focus its resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks to best leverage its resources to strengthen oversight. We established an integrated approach to identify these programs and operations of greatest risk and published our initial risk-based plan in February 2015, which is updated annually.

Our [Audit, Evaluation, and Compliance Plan](#), adopted in April 2019, describes FHFA's and OIG's roles and missions, explains our risk-based methodology for developing this plan, provides insight into particular risks within five areas, and generally discusses areas where we will focus our audit, evaluation, and compliance resources. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

## Management and Performance Challenges

An integral part of OIG's oversight is to identify and assess FHFA's top management and performance challenges and to align our work with these challenges. On an annual basis, we assess FHFA's [major management and performance challenges](#), which, if not addressed, could adversely affect FHFA's accomplishment of its mission. OIG continues to focus much of its oversight activities on identifying vulnerabilities in these areas and recommending positive, meaningful actions that the Agency could take to mitigate these risks and remediate identified deficiencies. The management and performance challenges and the management concern are:

### **Conservatorship Operations: Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters**

Under HERA, FHFA, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their business activities. The Enterprises are large, complex financial institutions that dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S. housing finance industry. Given the taxpayers' enormous investment in the Enterprises, the unspecified timeline to end the conservatorships, the Enterprises' critical role in the secondary



mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

FHFA has delegated authority to the Enterprises for many matters, both large and small. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator. FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions).

OIG's body of work over the last five years has found that FHFA has limited its oversight of delegated matters largely to attendance at Enterprise internal management and board meetings as an observer and to discussions with Enterprise managers and directors. Read together, the findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions.

We have also found that FHFA has not clearly defined its expectations of the Enterprises for delegated matters, nor has it established the accountability standard that it expects the Enterprises to meet for such matters. Our work identified that certain **internal control** systems at the Enterprises were ineffective: they failed to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we identified a lack of rigor by some directors in seeking information from management about the matters for which they are responsible. We also identified instances in which corporate governance decisions generally reserved to the board of directors have been delegated to management.

Over the past five years, OIG's work has found that FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. FHFA has established written internal review and approval processes for non-delegated matters, designed to provide a consistent approach for tracking, analyzing, and resolving such matters and for providing decision-makers with all relevant facts and existing analyses.

As the Enterprises' conservator, FHFA is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises for the duration of the conservatorships and ensure that its established processes are followed for non-delegated matters to promote reasoned decision-making.

## **Supervision of the Regulated Entities: Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the FHLBanks**

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by HERA to ensure that these entities operate safely and soundly so that 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, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises.

FHFA has stated that its top priorities include “cement[ing] FHFA as a world-class regulator and [ ] restor[ing] Fannie Mae and Freddie Mac...to safe and sound condition by building capital to match their risk profiles.” However, as demonstrated by 34 of our reports issued since October 2014, FHFA's existing supervision program for the Enterprises is materially deficient and its supervisory guidance falls short of the guidance issued by the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation.

The magnitude of the risk posed by the Enterprises is significantly greater than the magnitude of the risk posed by the FHLBanks and the Office of Finance together because the asset size of the latter is a fraction of the asset size of the former. For that reason, the majority of OIG's work on supervision issues has focused on FHFA's supervision of the Enterprises. However, we also looked at elements of FHFA's supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

## **Information Technology Security: Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA**

Cybersecurity, as defined by the National Institute of Standards and Technology (NIST), is “the process of protecting information by preventing, detecting, and responding to attacks.” In May 2017, President Trump issued an executive order to strengthen the cybersecurity of federal networks and critical infrastructure. The Financial Stability Oversight Council (FSOC), of which FHFA is a member, later reported:

The financial system's increasing reliance on information technology, particularly across a broader array of interconnected platforms, increases the risk that a cybersecurity event could have severe negative consequences for the provision of financial services.

. . . Sustained senior-level attention on cybersecurity risks and their potential systemic implications is necessary.<sup>2</sup>

FHFA's regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to **guarantee** or purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and personally identifiable information (PII). Both the Enterprises and the FHLBanks have been the targets of cyberattacks. FHFA acknowledges that its regulated entities face significant cybersecurity risks, and the Agency understands its responsibility to provide effective oversight of the Enterprises' management of cybersecurity risks.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its supervisory activities for the financial institutions it supervises. These supervisory activities may be made increasingly difficult by FHFA's continuing need to attract and retain highly qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

As conservator of and supervisor for the Enterprises and supervisor for the FHLBanks, FHFA collects and manages sensitive information, including PII, that it must safeguard from unauthorized access or disclosure. An independent public accounting firm under contract with our office audited FHFA's 2019 privacy program and concluded that FHFA had generally implemented effective privacy and data protection policies and procedures in accordance with law, regulation, and policy.

Equally important is the protection of its computer network operations that are part of the nation's critical financial infrastructure. FHFA is required to design information security programs to protect its computer networks. Our annual audits performed pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) are intended to ensure FHFA's compliance with those standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network.

FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

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<sup>2</sup> FSOC, [2018 Annual Report](#) at 7 (Updated June 20, 2019).

## Counterparties and Third Parties: Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties to properly originate and service the mortgages the Enterprises purchase and third parties to provide operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations and the risk that a counterparty will engage in fraudulent conduct. As FSOC has cautioned:

Reliance by financial institutions on third parties to provide important operational functions has increased over the past several years. With the adoption of fintech innovations and the proliferation of large data sets, some financial institutions have outsourced portions of certain operational functions and data gathering requirements. . . . They are also using outside cloud computing services to supplement existing technology infrastructures for data storage, redundancy, and computational capacity. These services have information and cost benefits, but relying on outside firms for critical data and services also creates risks.<sup>3</sup>

FHFA, however, lacks authority to supervise these counterparties and third parties. It reviews Enterprise management of their relationships with counterparties and third parties through its supervisory activities. FHFA has acknowledged that “from a risk perspective there are some key differences between banks and non-banks that we need to address in a responsible way.”<sup>4</sup>

Our publicly reportable criminal investigations include inquiries into alleged fraud by a variety of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies.

In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of risks related to their counterparties and third parties.

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<sup>3</sup> *Id.* at 91.

<sup>4</sup> FHFA, [\*Prepared Remarks of Dr. Mark A. Calabria, Director of FHFA, at 2019 Ginnie Mae Summit.\*](#)

## **Management Concern: Sustain and Strengthen Internal Controls Over Agency and Enterprise Operations**

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency.

As described in the Government Accountability Office's (GAO's) [\*Standards for Internal Control in the Federal Government\*](#),

change can often be overlooked or inadequately addressed in the normal course of operations.... Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions.... Further, changing conditions often prompt new risks or changes to existing risks that need to be assessed.

Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

Both the Agency and the Enterprises have also undergone significant leadership changes. During 2019, a new FHFA Director was nominated by President Trump, confirmed by the U.S. Senate, and began his term at FHFA, and he has assembled a new senior leadership team. In 2019, new Chief Executive Officers (CEOs) were appointed for each Enterprise, and each Enterprise added three new directors.

Changes in leadership can lead to a shift in resources away from implementing internal controls to new initiatives.

## OIG Impact Through its Oversight Initiatives

Since the Fall of 2014, OIG has developed and implemented new initiatives and enhanced existing processes to strengthen its oversight and provide FHFA with critical information necessary to improve its programs and operations. Given the size and complexity of the regulated entities and the unique, dual responsibilities of FHFA, making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

### Office of Risk Analysis

To assist in making those choices, OIG's Office of Risk Analysis (ORA) enhances our ability to focus our resources on the areas of greatest risk to FHFA. ORA is tasked with identifying, analyzing, monitoring, and prioritizing emerging and ongoing risks and with educating stakeholders on those issues. Through its work, it has contributed data and information to our annual risk-based planning process for audits, evaluations, and compliance reviews.

During this reporting period, ORA issued four white papers discussing areas of potential emerging and ongoing risks.

#### **White Paper: Fannie Mae and Freddie Mac Uniform Mortgage-Backed Securities**

The Enterprises launched the Uniform Mortgage-Backed Security (UMBS) in 2019. FHFA's main objective for the UMBS was to establish and maintain a single liquid market for Fannie Mae and Freddie Mac **mortgage-backed securities**. The Agency also expected the common security to reduce or eliminate the cost to Freddie Mac and ultimately to taxpayers from the historical difference in the liquidity of Fannie Mae and Freddie Mac securities. FHFA and the Enterprises have recognized the potential risk that investors may stop treating the UMBS issued by Fannie Mae and by Freddie Mac as interchangeable, particularly if the prepayment speeds of the securities diverge, which could undermine the Agency's purposes for the securities.

In light of the risks identified for potential future misalignment of the securities, we issued this white paper, which discusses the development of the UMBS, the risks identified by FHFA and the Enterprises, and efforts by FHFA to mitigate those risks. (See OIG, [\*Fannie Mae and Freddie Mac Uniform Mortgage-Backed Securities\*](#) (WPR-2020-001, March 4, 2020)).

#### **White Paper: An Overview of Enterprise Use of Cloud Computing**

Cloud computing is a technology service that provides on-demand access to a shared pool of computing resources over the internet. Fannie Mae and Freddie Mac are migrating business operations to a cloud environment provisioned by third-party public cloud providers. While both Enterprises invoked benefits of efficiency and technological advancement from a move to the cloud, both recognized high operational risks from these moves. In addition to the

operational risks in play during the cloud migration process, use of the public cloud environment presents its own set of risks, such as third-party, information security, and business resiliency risks. Additional risks include concentration risks with a cloud service provider and risks with inadequate cloud computing staff.

In recognition of the potential risks associated with cloud computing, we issued this white paper, which explains the status of the Enterprises' cloud computing efforts and discusses the potential risks. (See OIG, [An Overview of Enterprise Use of Cloud Computing](#) (WPR-2020-002, March 11, 2020)).

### **White Paper: Third-Party Relationships: Risk Assessment and Due Diligence in Vendor Selection**

The Enterprises rely heavily on counterparties and third-parties to originate and service the mortgages the Enterprises purchase and on third-parties to provide the operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including counterparty, operational, cyber, and reputational risks. Currently, FHFA lacks the authority to regulate and supervise counterparties and third-parties directly.

In light of the risks related to third-parties, we commenced a white paper series focused on risk management relating to third-parties. In this white paper, we described the Enterprises' third-party risk management programs for the first two phases of the risk management life cycle, Risk Assessment and Due Diligence in Third-Party Provider Selection, for financial technology companies. (See OIG, [Enterprise Third-Party Relationships: Risk Assessment and Due Diligence in Vendor Selection](#) (WPR-2020-003, March 12, 2020)).

### **White Paper: Enterprises' Transition from LIBOR to an Alternative Index for Single-Family ARMs**

The London Interbank Offered Rate (LIBOR) reflects the cost at which large banks can borrow on an unsecured basis in wholesale financial markets and is the most widely used interest rate benchmark in the world. In July 2017, due to concerns about LIBOR's sustainability, the United Kingdom's Financial Conduct Authority, the regulator of LIBOR, announced LIBOR would not be supported past 2021. That same year, the Alternative Reference Rates Committee identified the Secured Overnight Financing Rate as its preferred alternative reference rate in the United States. Both Enterprises recognize that discontinuation of LIBOR is a top risk. That risk has two components for their single-family adjustable-rate mortgages (ARMs). First, the Enterprises must offer a new ARM product indexed to an alternative reference rate. Second, they must transition legacy ARMs to an alternative reference rate.

In light of those risks, we issued a white paper summarizing the transition away from LIBOR in the Enterprises' single-family ARMs, along with the associated risk considerations. (See OIG, [\*Enterprises' Transition from LIBOR to an Alternative Index for Single-Family ARMs\*](#) (WPR-2020-004, March 19, 2020)).

## **Administrative Inquiries**

OIG conducts administrative inquiries to provide additional, targeted oversight where specific waste, fraud, and/or abuse has been alleged. Reports of completed inquiries keep FHFA senior management, Congress, and the public informed of risks and shortcomings in agency programs and operations.

## **Office of Compliance and Special Projects**

Recommendations to address deficiencies identified during an audit, evaluation, or administrative inquiry require meaningful follow-up and oversight to ensure that the corrective actions proposed to address OIG's recommendations have been fully implemented, and that the shortcomings that gave rise to the recommendations have been addressed. OIG's Office of Compliance and Special Projects (OCom) has strengthened our capacity to perform compliance reviews to determine whether FHFA has fully implemented our recommendations. OCom has several responsibilities:

### **Counsel on Closure of Recommendations**

When FHFA believes that efforts to implement corrective actions are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents. Each respective operational division that conducted an audit or evaluation reviews the materials and representations submitted by the Agency to determine whether to close recommendations, and may close some recommendations based on the Agency's representations as to corrective actions it has taken. OCom tracks these decisions and communicates with each OIG division prior to the closure of a recommendation to ensure we are applying a single standard across OIG for closing recommendations.

### **Tracking of Recommendations**

OCom maintains a database in which it tracks the status of all recommendations issued by OIG in its reports.

### **Validation Testing**

We are not always able to assess, at the time of closure, whether the implemented corrective actions by FHFA meet the letter and spirit of the agreed-upon recommendation, nor can we determine, at closure, whether the underlying shortcoming has been addressed. OCom conducts validation testing on a sample of closed recommendations to hold FHFA accountable for the



corrective actions it has represented it has implemented. We publish the results of that validation testing to enable our stakeholders to assess the efficacy of FHFA's implementation of actions to correct the underlying shortcoming.

Compliance reviews enhance our ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA, and OCom's validation testing is a key component. Overall, we validated that since January 2015, FHFA has adequately implemented 18 of the 29 recommendations (62%) we tested and has not implemented the remaining 11 (38%). When OCom determines that a recommendation has not been implemented and the underlying shortcoming remains, the recommendation is reopened and tracked until FHFA takes corrective actions.

# OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period

OIG fulfills its oversight mission through four operational offices. In this section, OIG discusses its oversight activities in three of its operational offices: the Office of Audits, the Office of Evaluations, and OCom. During this reporting period, OIG published 15 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges, and the one management concern that we identified above.

## Office of Audits

The Office of Audits (OA) conducts independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. As required by the Inspector General Act, OA performs its audits in accordance with the audit standards promulgated by the Comptroller General of the United States, which are known as generally accepted government auditing standards or GAGAS. OA also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

## Office of Evaluations

The Office of Evaluations (OE) conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the **Inspector General Reform Act of 2008**, IGs are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the standards CIGIE established for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation* (Blue Book).

## Office of Compliance and Special Projects

Typically, when an agency accepts an OIG recommendation and takes steps to implement the corrective action, the agency reports on its efforts to the OIG and the OIG relies on materials and representations from the agency to close the recommendation. As discussed in the prior section, the validation testing conducted by OCom holds FHFA accountable for the corrective actions it has represented as implemented.

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. OCom performs its compliance reviews and special projects in accordance with the Blue Book.

## Oversight Activities This Period

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the risk-based areas on which we intend to focus our audit, evaluation, and compliance resources during the calendar year. That risk-based work plan aligns OIG’s work to the top management and performance challenges and the management concern we have identified to FHFA.

We now discuss our oversight activities executed by OA, OE, and OCom during the reporting period by each risk area and our assessment of certain FHFA agency operations and internal controls.

## Conservatorship Operations

FHFA, as conservator, has delegated responsibility to each Enterprise a significant portion of day-to-day management and risk management controls. For this governance approach to succeed, FHFA must be confident that the Enterprises’ directors and committees are properly exercising the powers they have been given and fulfilling their responsibilities.

During this reporting period, we issued one compliance review in connection with non-delegated matters.

### **Non-Delegated Matter: Compliance Review of FHFA’s Process for Reviewing the Enterprises’ Proposed FY 2019 and FY 2020 Annual Operating Budgets**

FHFA reviews and approves the Enterprises’ proposed administrative operating budgets each year. In 2015, we made several recommendations to address deficiencies in FHFA’s budget review process, including that FHFA “[r]evise the existing budget review process and staff the review process with employees who have the qualifications and experience needed for critical financial assessments of the proposed Enterprise budgets to permit FHFA to determine whether each Enterprise’s budget aligns with FHFA’s strategic direction and its safety and soundness priorities.” FHFA committed to hire a financial analyst and to assign other employees “with relevant technical qualification and experience to support the budget review process.” FHFA also committed that its Division of Conservatorship (DOC)<sup>5</sup> would “strategically consult” with other FHFA offices regarding proposed budgets. We initiated this compliance review to determine whether FHFA met its staffing and consultation commitments when reviewing the Enterprises’ proposed FY 2019 and FY 2020 budgets. We found that FHFA met both commitments. (See OIG, [\*Compliance Review of FHFA’s Process for Reviewing the Enterprises’ Proposed FY 2019 and FY 2020 Annual Operating Budgets\*](#) (COM-2020-003, March 13, 2020)).

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<sup>5</sup> On January 30, 2020, FHFA’s DOC was renamed the Division of Resolutions (DOR).

## Supervision of the Regulated Entities

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that 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 supervision of the Enterprises and DBR is responsible for supervision of the FHLBanks.

During this reporting period, we issued one roll-up report, one evaluation, one audit, and one compliance review in connection with FHFA's supervision of its regulated entities.

### **FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac**

As HERA recognizes, FHFA's supervision of the Enterprises is of paramount importance to their safe and sound operation. Since October 2014, we have issued more than 40 reports on FHFA's supervision program for the Enterprises. Thirty-four of these reports, taken collectively, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. These deficiencies, organized into four programmatic elements, include: (1) examination guidance and execution; (2) adequately sized examiner workforce with necessary qualifications and training; (3) communication of supervisory findings; and (4) quality control. We have reported that DER has struggled to complete remediation of chronic and pervasive deficiencies in a timely manner, or has abandoned, not fully completed, or completed in form and not substance actions it undertook to remediate these deficiencies.

The FHFA Director announced that the Enterprises may emerge from conservatorship as early as 2021, and that FHFA is developing a "roadmap" by which to end those conservatorships. In its *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, issued on October 28, 2019, FHFA stated that its capacity to supervise the Enterprises must be "on par with that of other independent federal financial regulators" before releasing them from conservatorship. In written Congressional testimony, the Director stated that the Enterprises must be "well-regulated" before they can "responsibly" be released from conservatorship. He advised that FHFA's examination work must be "consistently rigorous, timely, and effective."

To meet this goal, much work will need to be completed in a short period of time to strengthen FHFA's existing supervision program for the Enterprises and to remediate known shortcomings. The current FHFA Director has begun that process.

Effective February 3, 2020, the FHFA Director replaced the Deputy Director, DER, with a new Deputy Director and Associate Director of DER as part of an organizational “realignment.” To assist this new leadership in rebuilding FHFA’s supervision program for the Enterprises, we summarized the chronic and pervasive deficiencies that we have identified in previously published reports, by four programmatic elements:

OIG identified chronic and pervasive deficiencies in FHFA’s supervision program for the Enterprises in the areas of:

- Examination Guidance and Execution
- Adequately Sized Examiner Workforce with Necessary Qualifications and Training
- Communication of Supervisory Findings
- Quality Control

- **Examination Guidance and Execution**

- FHFA lacks clear and comprehensive examination guidance for supervision of the Enterprises and its guidance lacks the rigor of other federal financial regulators.
- FHFA failed to complete a significant number of targeted examinations planned for each year since 2012.

- **Adequately Sized Examiner Workforce with Necessary Qualifications and Training**

- FHFA acknowledged in 2019 that it had not engaged in a systematic workforce planning process to determine whether it has the right staff size and skill mix to conduct its statutory supervisory responsibilities, despite its prior commitments in 2013 and 2014 to conduct such planning.
- Despite FHFA’s recognition of the significant risks from the Enterprises’ use of more than 100 “high-risk” models, it planned only a few targeted examinations of high-risk models (roughly 3% of those annually over six examination cycles) and completed a fraction of those examinations during the cycle for which they were planned. FHFA officials maintained that limited resources constricted FHFA’s ability to examine more high-risk models.
- Notwithstanding its expenditure of \$7.7 million over almost seven years, FHFA failed to establish a commissioned examiner program.
- These systemic failures by FHFA raise significant questions about its capacity to supervise the Enterprises.

- **Communication of Supervisory Findings**

- FHFA failed to communicate Matters Requiring Attention (MRAs) directly to the Enterprises' boards of directors, even though these boards are responsible for ensuring that the MRAs are remediated.
- FHFA shared conclusions from its ongoing monitoring activities with the Enterprises' boards of directors before subjecting them to quality control review, creating a risk of communicating inaccurate information.

- **Quality Control**

- Over the last eight years, FHFA has failed to establish a rigorous quality control function for its supervision program for the Enterprises.

Consequently, the challenge now facing FHFA is formidable. In its management response to our report, FHFA agreed that its supervision of the Enterprises is of paramount importance to their safe and sound operation and asserted that management will continue to pursue the corrective actions to which it had previously committed. To remediate the deficiencies identified by us and by FHFA before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. Success will require a sustained, disciplined, and robust effort on the part of FHFA, led by an accountable senior executive. It will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

Stakeholders should understand that, absent completion of meaningful remediation of deficiencies in its supervision program, FHFA may be unable to meet its statutory responsibilities to ensure the safe and sound operation of the Enterprises. (See [OIG, \*FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac\*](#) (OIG-2020-002, March 30, 2020)).

## **FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of the Enterprises**

FHFA, like other federal financial regulators, develops an annual supervisory strategy and annual supervisory plan for each entity it regulates. Workforce planning is a process for identifying and addressing gaps between an organization's current staff and its future workforce needs. It serves as the foundation for management of an organization's human capital. In a 2013 evaluation, we found that FHFA lacked a systematic process to ensure that its core examination teams for the Enterprises were adequately staffed to execute their annual examination plans in a timely and thorough manner. In its written response, FHFA committed to undertake systematic workforce

OIG’s audit work revealed that FHFA failed to engage in a systematic workforce planning process for the past five years, notwithstanding its written commitment to adopt and implement a systematic workforce planning process in 2013, written assertion in 2014 that it had fulfilled its commitment, and written reiteration of the importance of such a process in 2018.

planning. (See OIG, [Update on FHFA’s Efforts to Strengthen its Capacity to Examine the Enterprises](#) (EVL-2014-002, December 19, 2013)). The following year, DER represented in writing that it was developing and implementing a workforce planning process. It projected that it would complete all high-priority examination activities planned for the 2014 examination cycle on time and was authorized to hire examiners for other planned supervisory activities.

We conducted an audit to determine whether DER adopted and implemented a systematic supervisory workforce planning process—as it committed to do in 2013, claimed to have done during 2014, and reaffirmed the importance of in 2018 in its current Agency-wide strategic plan—to meet its statutory responsibilities to ensure the Enterprises’ safety and soundness. FHFA leadership acknowledged to us that FHFA had not engaged in a systematic workforce planning process for its supervision program for the Enterprises. The impact of the lack of such a process can be seen in audits we issued in 2016 and 2019 in which we found, over the seven-year period of 2012 through 2018, that FHFA consistently failed to complete all targeted examinations during the examination cycle for which they were planned.

We reaffirmed two recommendations from our 2013 evaluation report and made one new recommendation. We stressed that, in our judgment, the identified deficiencies must be remediated if FHFA is to achieve its strategic goal of a supervisory capacity “on par with that of other independent federal financial regulators” before releasing the Enterprises from their conservatorships. In a written management response, FHFA deferred any response to our recommendation until June 2020 to provide its new management team in DER with the opportunity to consider it. (See OIG, [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)).

### **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**

The Enterprises rely heavily on models to measure and monitor risk exposures and make business decisions. Since its inception, FHFA has recognized the risks from use of the Enterprises’ high-risk models. In its first annual report to Congress after placing the Enterprises

in conservatorship, FHFA reported that at the start of 2008, many of the Enterprises' credit risk models "substantially under-predicted credit losses" and "improvements came too late, after hundreds of billions of dollars in risky loans had already been acquired or guaranteed."

Despite FHFA's recognition of the significant risks from the Enterprises' use of high-risk models, we found that, over six examination cycles (2014 through 2019), FHFA planned a small number of targeted examinations of high-risk models annually (roughly 3%) and completed only a fraction of them during the cycle for which they were planned. FHFA officials maintained that limited resources constricted FHFA's ability to provide greater supervisory coverage of high-risk models.

FHFA is not an appropriated agency. HERA vests the FHFA Director with the authority to assess FHFA's regulated entities for the full cost of supervising them to ensure that they operate in a safe and sound manner. The determination by former FHFA leadership to fail to establish a budget adequate to fund FHFA's effective supervision of the Enterprises is inconsistent with Congress' intent, as set forth in HERA.

We also found that FHFA's failure to conduct systematic workforce analyses for model risk has deprived DER of the data necessary to determine: the number of high-risk models that it should examine annually; the necessary qualifications for model examiners; and the number of qualified model examiners needed to conduct and complete targeted examinations of high-risk models during the examination cycle for which they were planned.

While FHFA has long recognized the significant risks from the Enterprises' use of high-risk models, we found that, over six examination cycles, FHFA planned a small number of targeted examinations of high-risk models annually (roughly 3%) and only completed a fraction of them during the cycle for which they were planned.

We made two recommendations to address the shortcomings our evaluation identified. FHFA deferred any response to our recommendations until June 30, 2020, to provide its new management team in DER with the opportunity to consider them. (See OIG, [\*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)).



## **Compliance Review of the Timeliness of FHFA’s Assessments of the Enterprises’ Remediation Closure Packages for a Matter Requiring Attention**

In 2016, we found that FHFA examiners could take more than a year after receiving an Enterprise’s MRA closure package to confirm that the MRA had been remediated. We recommended that FHFA require examiners to estimate the date by which they propose to confirm remediation of the MRA and track the progress of their efforts against the proposed completion date. In response, FHFA instructed its examiners to assess an Enterprise’s closure package and supporting materials “generally” within 120 days after receipt of that package. We initiated this compliance review to test whether examiners followed that timeline. For one Enterprise, we found that examiners completed timely assessments of closure packages 50% of the time and found that examiners for the other Enterprise completed timely assessments of closure packages 43% of the time. Because of the examiners’ significant shortcomings in adhering to the 120-day assessment period, we re-opened our 2016 recommendation. FHFA agreed to re-evaluate and, if appropriate, amend its internal guidance on MRA remediation by December 31, 2020. (See OIG, [\*Compliance Review of the Timeliness of FHFA’s Assessments of the Enterprises’ Remediation Closure Packages for a Matter Requiring Attention\*](#) (COM-2020-001, February 21, 2020)).

## **Information Technology Security**

During the reporting period, we issued four audits regarding IT security and compliance with the Federal Information Security Modernization Act of 2014 (FISMA).

### **FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal**

In October 2018, FHFA’s Chief Information Officer approved the destruction of electronic media (e.g., laptop and server hard drives, mobile devices) no longer in use that had accumulated over 19 years, including electronic media from predecessor agencies. To carry out this destruction, FHFA transferred the electronic media to a contractor for shredding in January 2019. We conducted an audit to determine whether FHFA had meaningful controls over the electronic media approved for shredding in October 2018 and collected by its contractor in January 2019. We found that FHFA lacked such controls. First, we determined that FHFA failed to maintain accountability over this electronic media: it provided to us five unreconciled counts of the electronic media approved for disposal and was unable to report the actual number of electronic media collected for disposal by its contractor. The following photos illustrate some of the FHFA electronic media approved for shredding, taken January 9, 2019—the day before the contractor sent a truck to agency headquarters to pick up the items for off-site shredding.



Second, FHFA failed to follow its existing sanitization procedures for the electronic media: in the event that some volume of this electronic media was not destroyed by the contractor, FHFA's failure to sanitize this media created the risk that FHFA data could be exposed. We also found that FHFA's current procedures were deficient because they did not require hard drives removed from computers to be accounted for because such hard drives were not included in regular physical inventories, nor recorded in and reconciled to the information in its system of record used to account for computers. FHFA management agreed with our recommendation in the report. (See [OIG, \*FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal\*](#) (AUD-2020-009, March 30, 2020)).

### **FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information**

As part of an audit, we observed an FHFA disaster recovery exercise of the Agency's General Support System (GSS) that took place in November 2019 and performed related procedures. We found that the GSS services identified for testing were tested as planned, and the tests were successful. We also determined that FHFA's internal reporting of the test results was reliable. However, we found that FHFA's disaster recovery procedures for the GSS were missing certain required elements and included outdated information, which creates the risk that an effective and timely recovery following a service disruption or real disaster may not occur. In a written response, FHFA agreed with our two recommendations. (See [OIG, \*FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information\*](#) (AUD-2020-005, March 23, 2020)).

## Statutory Audits: FHFA’s and OIG’s Information Security Programs

We completed two audits, conducted in accordance with FISMA, that assessed the existing security programs at FHFA and OIG. (See OIG, [\*Audit of the Federal Housing Finance Agency’s Information Security Program, Fiscal Year 2019\*](#) (AUD-2020-001, October 25, 2019), and [\*Audit of the Federal Housing Finance Agency, Office of Inspector General’s Information Security Program, Fiscal Year 2019\*](#) (AUD-2020-002, October 25, 2019)). OIG contracted with an independent public accounting firm, CliftonLarsonAllen LLC, to perform separate FISMA audits of FHFA’s and OIG’s information security programs because FHFA and OIG maintain separate IT infrastructures. The objectives of these audits were to evaluate the effectiveness of FHFA’s and OIG’s information security program and practices and respond to the Department of Homeland Security’s *FY 2019 Inspector General (IG) Federal Information Security Modernization Act of 2014 Reporting Metrics*, dated April 9, 2019. Because information in these reports could be used to circumvent FHFA’s and OIG’s internal controls, the complete text of the reports has not been released publicly.

## Counterparties and Third Parties

The Enterprises rely heavily on counterparties for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations and the risk that a counterparty will engage in fraudulent conduct. FHFA, as conservator, has delegated to the Enterprises the management of their relationships with counterparties and reviews their management largely through its supervisory activities.

During this reporting period, we completed one compliance review in connection with this risk.

## Compliance Review of FHFA’s Enterprise Non-Performing Loan Sales Program

The Enterprises may sell non-performing loans (NPLs) to reduce the number of delinquent loans held in their retained portfolios and to transfer credit risk to the private sector. FHFA established multiple NPL program sales requirements, including post-sale reporting by NPL buyers to the Enterprises for a four-year period regarding borrower outcomes. After finding in 2017 that the Enterprises were not collecting all required information from NPL buyers, we recommended that FHFA (1) determine the information necessary to ensure NPL program requirements are being met and update the reporting standards accordingly, and (2) direct the Enterprises to establish controls to prevent NPL buyers from abandoning vacant properties. In response, FHFA required the Enterprises to collect four additional data fields from NPL buyers and impose additional follow-up requirements on buyers for potentially vacant properties.

We initiated this compliance review to verify the Enterprises' compliance with these two corrective actions from June 2018 through November 2019. We found that Freddie Mac complied with the data collection requirements for the first corrective action but Fannie Mae did not. Fannie Mae provided us with its proposed plan to collect the data starting in 2020. Regarding the second corrective action, Fannie Mae reported that it is following up with NPL buyers on three potentially abandoned properties (out of 78,281 NPL sold) whereas Freddie Mac had not identified any such instances. (See OIG, [Compliance Review of FHFA's Enterprise Non-Performing Loan Sales Program](#) (COM-2020-002, February 26, 2020)).

## **Agency Operations and Internal Controls**

During this reporting period, we issued one management advisory and four audits relating to agency operations and internal controls.

### **Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs**

We initiated an administrative inquiry into a claim alleging that an IT contractor did not provide full staffing levels to FHFA under its contract. We found that the contract calls for specific staffing levels and entitles FHFA to a reduction in the amount owed in the event the contractor fails to provide the contractually required staffing levels for more than three months (disincentive clause). We determined that during the period December 1, 2017, through September 30, 2019, the IT contractor failed to provide the required staffing levels for more than three months but that FHFA did not seek (or obtain) a reduction in the amount owed under the disincentive clause. As a result, FHFA paid the contractor \$80,985 more than it owed under the contract. Pursuant to the IG Act of 1978, as amended, we consider the \$80,985 owed FHFA as a questioned cost. In a management response, FHFA stated that it planned to assess, by April 30, 2020, whether recovery of these questioned costs is appropriate. (See OIG, [Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \\$80,000 in Questioned Costs](#) (OIG-2020-001, March 3, 2020)).

## **FHFA Needs to Strengthen Controls Over its Records Management Program**

In a joint directive issued in August 2012, the Office of Management and Budget (OMB) and the National Archives and Records Administration (NARA) established two electronic records management goals applicable to all Federal agencies.

- Goal 1 required electronic recordkeeping to ensure transparency, efficiency, and accountability, and management of electronic permanent records and of email records; and
- Goal 2 directed effective management of records consistent with Federal statutes and regulations and professional standards, and required employee training on records management and “scheduling” of records to ensure their proper retention and disposition.

We completed an audit to determine if FHFA achieved the records management goals established by OMB and NARA. We found shortcomings with FHFA’s efforts to meet Goal 1 for managing permanent electronic records in an electronic format. For the 28 permanent electronic records in our sample, FHFA was unable to readily and reliably locate any of them, based on the location identified in its file plans. We found 19 of these 28 permanent electronic records in locations other than those identified in FHFA’s file plans, before stopping our search. We also found that the records management training required of FHFA fell short in the areas of content and delivery of the 2019 refresher training to employees and contractor employees, and the delivery of mandatory training to new hire contractor employees and offboarded senior officials. Additionally, we observed that FHFA was unable to demonstrate that all of its records were scheduled, as required by OMB and NARA. FHFA management agreed with our four recommendations to address the identified shortcomings. (See OIG, [\*FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements\*](#) (AUD-2020-008, March 26, 2020)).

## **FHFA’s Procurement Awards Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed**

Although not subject to the Federal Acquisition Regulation (FAR), FHFA maintains that it follows the FAR on a voluntary basis to buy goods and services for its operations, except for flexibilities set forth in Agency policies and procedures. During this semiannual period, we completed an audit to determine whether FHFA made procurement awards in accordance with its policies and procedures. We reviewed a sample of 25 procurement awards totaling \$18.4 million selected from the population of 239 procurement awards totaling roughly \$34.6 million made between January 1, 2017, and September 30, 2019. We found that FHFA followed most of its policies and procedures for the sampled procurement awards. However, we found required internal peer reviews, intended to improve the completeness and quality of contract files, were not performed for five of the contracts in our sample. FHFA management agreed with

the recommendation in our report. (See OIG, [\*FHFA's Procurement Awards during the Period January 2017 to September 2019 Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed\*](#) (AUD-2020-006, March 24, 2020)).

### **FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed**

FHFA provides reimbursements and stipends to its employees for certain job-related expenses. For FY 2019, FHFA made 1,153 reimbursements and stipend payments totaling \$1,054,618. An OIG audit found that FHFA's controls over its reimbursements and stipends program during the fiscal year were not fully effective. We found non-systemic exceptions related to non-authorized reimbursements for multiple professional licenses or prohibited membership fees, unsupported gym memberships, over- and underpayments of travel stipends; out-stationed stipends paid to employees without approved out-station agreements, and a miscalculated Examiner-in-Charge stipend. Additionally, we found that FHFA's practice for calculating travel stipends was neither stated in its policy nor consistently followed. In a written management response, FHFA agreed with our three recommendations to address these shortcomings. (See OIG, [\*For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed\*](#) (AUD-2020-007, March 26, 2020)).

### **Statutory Audit: FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2019**

The Improper Payments Information Act of 2002, as amended (IPIA), requires federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. IPIA, among other things, directs federal Inspectors General to determine annually whether their respective agencies are in compliance with the statute. Our IPIA audit for fiscal year 2019 found that FHFA complied with the applicable provisions of IPIA. (See OIG, [\*FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2019\*](#) (AUD-2020-003, February 13, 2020)).

## Reports and Recommendations

Below are the 19 audits, evaluation, compliance reviews, special report, management advisory, and white papers published during the period. A list of the recommendations made in these OIG reports is provided in Appendix B. See OIG’s website, [www.fhfa.oig.gov](http://www.fhfa.oig.gov), for a list of all reports issued by OIG since its inception.

Report	Date
<a href="#">Audit of the Federal Housing Finance Agency’s Information Security Program (Fiscal Year 2019)</a> (AUD-2020-001)	October 25, 2019
<a href="#">Audit of the Federal Housing Finance Agency Office of the Inspector General’s Information Security Program (Fiscal Year 2019)</a> (AUD-2020-002)	October 25, 2019
<a href="#">FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2019</a> (AUD-2020-003)	February 13, 2020
<a href="#">Compliance Review of the Timeliness of FHFA’s Assessments of the Enterprises’ Remediation Closure Packages for a Matter Requiring Attention</a> (COM-2020-001)	February 21, 2020
<a href="#">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</a> (AUD-2020-004)	February 25, 2020
<a href="#">Compliance Review of FHFA’s Enterprise Non-Performing Loan Sales Program</a> (COM-2020-002)	February 26, 2020
<a href="#">Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs</a> (OIG-2020-001)	March 3, 2020
<a href="#">Fannie Mae and Freddie Mac Uniform Mortgage-Backed Securities</a> (WPR-2020-001)	March 4, 2020
<a href="#">An Overview of Enterprise Use of Cloud Computing</a> (WPR-2020-002)	March 11, 2020
<a href="#">Enterprise Third-Party Relationships: Risk Assessment and Due Diligence in Vendor Selection</a> (WPR-2020-003)	March 12, 2020

Report	Date
<a href="#"><u>Compliance Review of FHFA’s Process for Reviewing the Enterprises’ Proposed FY 2019 and FY 2020 Annual Operating Budgets (COM-2020-003)</u></a>	March 13, 2020
<a href="#"><u>Enterprises’ Transition from LIBOR to an Alternative Index for Single-Family ARMs (WPR-2020-004)</u></a>	March 19, 2020
<a href="#"><u>FHFA’s 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information (AUD-2020-005)</u></a>	March 23, 2020
<a href="#"><u>FHFA’s Procurement Awards during the Period January 2017 to September 2019 Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed (AUD-2020-006)</u></a>	March 24, 2020
<a href="#"><u>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)</u></a>	March 25, 2020
<a href="#"><u>For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA’s Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed (AUD-2020-007)</u></a>	March 26, 2020
<a href="#"><u>FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements (AUD-2020-008)</u></a>	March 26, 2020
<a href="#"><u>FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac (OIG-2020-002)</u></a>	March 30, 2020
<a href="#"><u>FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal (AUD-2020-009)</u></a>	March 30, 2020



# Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority, which is exercised by its Office of Investigations (OI). OI conducts criminal and civil investigations into those, whether inside or outside of government, who engage in waste, theft, or abuse in connection with the programs and operations of the Agency and the regulated entities. OI is staffed with Special Agents (SAs), investigative counsel, analysts, and attorney advisors who work in Washington, D.C., and field offices across the nation. OI has offices located within the metro area of several federal judicial districts that lead the nation in reported instances of mortgage fraud: the Southern District of Florida; the Northern District of Illinois; the Central District of California; and the New York metro area, which includes the Eastern and Southern Districts of New York. To maximize criminal and civil law enforcement efforts, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the U.S. Department of Housing and Urban Development OIG (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.



OI is the only federal law enforcement organization that specializes in deterring and detecting fraud perpetrated against the Enterprises, and its commitment to its mission is essential to the well-being of the secondary mortgage market. Collectively, Fannie Mae and Freddie Mac hold more than \$5 trillion worth of mortgages on their balance sheets. Each year the Enterprises acquire millions of mortgages worth several hundreds of billions of dollars. The potential for fraud in these circumstances is significant. OI also investigates cases involving the eleven regional FHLBanks and, in some instances, cases involving banks that are members of the FHLBanks.

To increase OIG's effectiveness, three OIG attorney-investigators have been appointed Special Assistant U.S. Attorneys in several judicial districts. They have been assigned criminal matters arising from OI's investigations in the districts in which they have been appointed and have pursued these investigations to conviction and sentencing.

## **OI Investigations and Results**

Working with federal and state prosecutors and with OIG attorney-investigators, OI SAs conduct investigations that may result in criminal charges being brought against individuals and entities that engaged in illegal conduct. Such charges may be resolved by a trial or plea agreement, as well as incarceration and criminal monetary penalties, including forfeitures and restitution.

This reporting period, as a result of OI’s investigations, 42 defendants were sentenced to an aggregate total of 112 years in prison and criminal monetary penalties over \$217 million.

<b>OI Monetary Results</b>		
October 1, 2019 – March 31, 2020		
	<b>Criminal Investigations</b>	<b>Civil Investigations</b>
Fines*	\$ 11,877,631	\$ 0
Settlements	\$ 0	\$ 3,003,300,000
Restitutions	\$ 205,951,889	\$ 0
<b>Total</b>	<b>\$ 217,829,520</b>	<b>\$ 3,003,300,000</b>

\*Includes criminal fines, forfeiture and special assessments imposed by federal courts.

<b>Reports, Referrals, Prosecutions, and Convictions</b>	
October 1, 2019 – March 31, 2020*	
Investigative Reports**	34
Criminal Referrals to DOJ	45
Criminal Referrals to State and Local Prosecuting Authorities	17
Indictments and Informations during the Reporting Period that Resulted from Referrals to Prosecutors during Prior Reporting Periods	37
<b>Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals</b>	<b>42</b>
Trials	2
Defendants Tried	2
Convictions / Pleas	29
Sentencings	42

\* All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court, including non-public documents (sealed). All referrals made to DOJ and to state prosecutors are captured within each investigative file; these actions are tabulated via a statistical report run in OIG’s case management system. Criminal referrals on this chart include both individuals and entities.

\*\* For the purposes of this table, an investigative report is defined as the Report of Investigation finalized at the conclusion of an investigation, prior to case closure.

To date, OI’s criminal investigations have resulted in over \$5 billion in orders of restitution, forfeiture, seizures, fines, and special assessments. Our civil investigations have resulted in over \$66 billion in civil settlements, recoveries, and fines.

## Mortgage Fraud Investigations

Specialized knowledge of the mortgage industry is a prerequisite to conducting effective and efficient investigations of mortgage fraud schemes and to provide support to prosecutors and fact-finders. The time and effort required to investigate an allegation of mortgage fraud depends upon the particular scheme by which it is perpetrated.

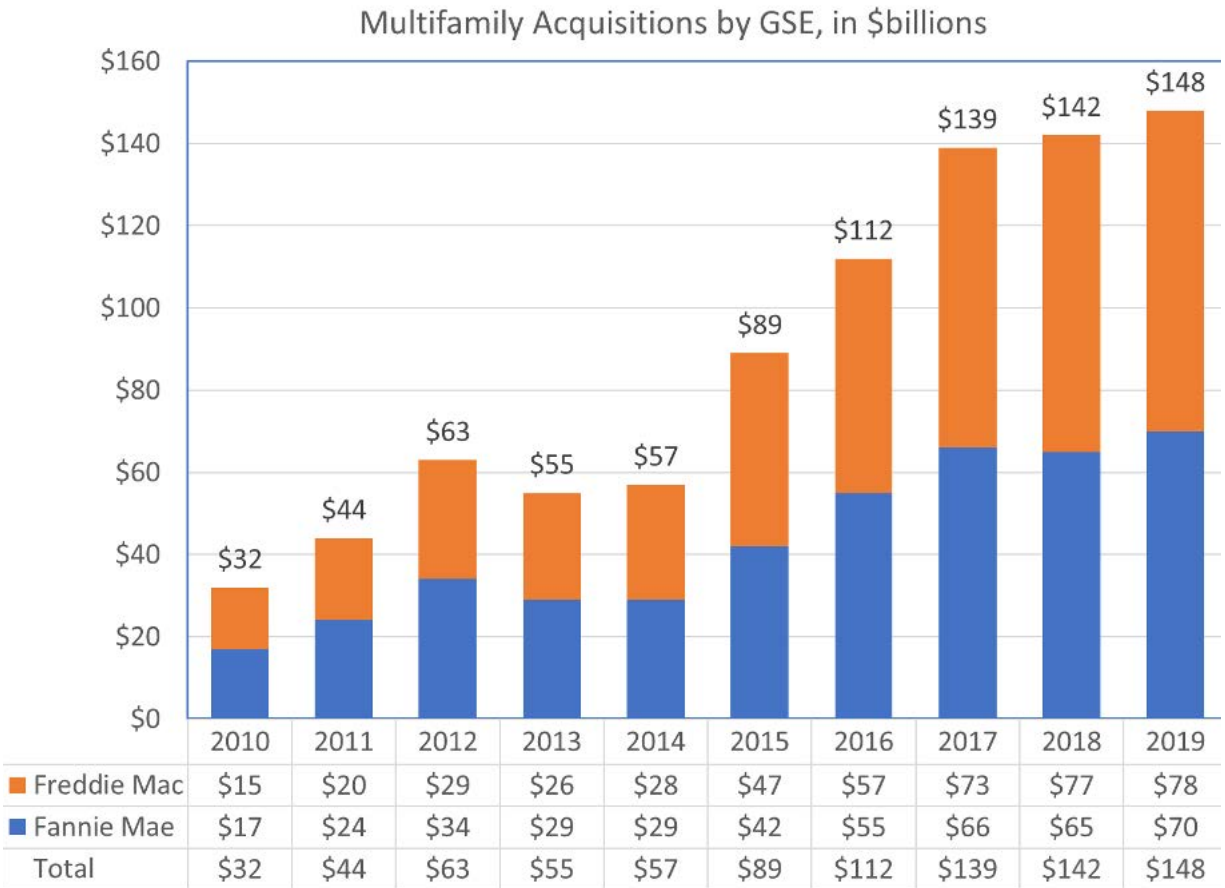
For example, loan origination and **short sale** schemes may be labor intensive due to the extensive review and analysis of mortgage loan files and bank documents necessary to spot indications of fraud. Fraudulent loan modification schemes sometimes involve hundreds of victims and require numerous victim and witness interviews, comprehensive reviews of documents and financial records, and the tracking of illicitly received fees charged by the perpetrators. In condominium or builder bailout scheme investigations, SAs carefully examine mortgage and bank documents to uncover patterns of fraudulent behavior, including undisclosed incentives to attract buyers to purchase and invest in properties. In these investigations, SAs locate and interview investors, learn the nuances of each scheme, and determine how the perpetrators benefitted financially.

In **bankruptcy** or **foreclosure**-delay schemes, SAs cull documents received by the Enterprises and the FHLBanks, calculate the losses attributable to them, and coordinate with the Office of the United States Trustee to determine whether a fraudulent petition has been filed to initiate a bankruptcy. Other investigations conducted by SAs include **real estate owned (REO)** and adverse possession schemes, which present unique circumstances requiring many hours of intense document analysis, potential victim and witness interviews, and other investigative techniques.

## OI Initiatives

Recognizing our statutory responsibility to prevent and detect fraud in the operations of FHFA and the Enterprises, we have developed several proactive initiatives to police the federal housing finance markets for possible fraud. To develop these initiatives, we monitored and evaluated Enterprise participation in the secondary mortgage market, reviewed risk management data generated by the Enterprises, analyzed Suspicious Activity Reports (SARs) filed by financial institutions, developed data analytics tools to identify patterns and relationships that may be indicative of fraud, and met with stakeholders. Those efforts led to the following ongoing initiatives:

- Multifamily Initiative.** We recognized, based on a review of the Enterprises' participation in the secondary mortgage market, that the multifamily segment of their portfolios had grown significantly over the past few years. Through the third quarter of 2019, the Enterprises acquired nearly 50% of all multifamily loans generated in the United States. As of December 31, 2019, the two companies had purchased \$148 billion of multifamily loans.



Source: Fannie Mae Multifamily Business Information Presentation, Jan 2020, and Freddie Mac Form 10-Ks.

After we received complaints alleging fraud and other criminality involving multifamily projects in the Buffalo and Rochester, New York, areas, we assembled a team of SAs, attorneys with transactional experience and prosecutorial backgrounds, and financial analysts, and partnered with other law enforcement agencies to investigate the allegations. To date, several individuals have pled guilty to federal fraud charges. Since that time, our investigation has broadened both geographically and otherwise, with greater potential risk to the Enterprises. Our investigation remains active.

Our multifamily initiative has generated leads that have resulted in the opening of additional multifamily investigations around the country. Those investigations are ongoing.

- **Proactive Law Enforcement Initiative.** Federal financial institutions, including the FHLBanks and the Enterprises, are required to file SARs with the Financial Crimes Enforcement Network (FinCEN) when they detect a suspicion of fraud. We reviewed individual SARs for possible fraud involving the regulated entities and launched investigations when appropriate. We also reviewed requests the Enterprises made of loan originators in the case of loans the Enterprises determined did not meet their **underwriting** standards.

We recognized that data mining of SARs and loan repurchase requests using customized algorithms and other data mining tools would be more efficient and accurate than manual searches. Such tools would enable us to identify potential indicators of fraud in large batches of data in less time and assign investigative resources more effectively.

Using data analytics tools developed by a team of SAs, attorneys, and data programmers, we review SARs and repurchase requests for indicators of potential fraud and refer requests found to have such indicators to SAs for further review. Our automated SAR reviews have resulted in a number of ongoing investigations. We continue to review SARs and repurchase requests using the data mining tools we developed for this purpose.

- **Cybercrime Initiative.** A cybercrime is one in which a computer is either the target of a crime or the means by which a crime is committed. Examples of computer crime include, but are not limited to, computer intrusions, denial of service attacks, viruses, and worms.

Recognizing that cybercrimes are increasing, we established a Cyber Investigation Unit (CIU) within OI and assigned SAs and an IT Specialist with cyber expertise. The CIU SAs are members of the FBI Washington Field Office Cyber Crimes Task Force and have access to many law enforcement databases from which they acquire information about cybercrimes or other cyber threats potentially targeting the Agency and its regulated entities. The CIU SAs also receive information about cyber threats to FHFA and its regulated entities from personnel at the Agency, the Enterprises, and the FHLBanks. As appropriate, the CIU SAs may share certain information from the law enforcement community with FHFA and its regulated entities in order to assist them in defending against a cyberattack or determining the origin of an attack, provided the source of the information authorizes that release.

Analysis of cyber threat information received from different sources by the CIU SAs has led OI to open criminal investigations that are ongoing and non-public.

## Investigations: Civil Cases

During the semiannual reporting period, OI continued to participate in civil investigations by working closely with U.S. Attorney's offices to investigate allegations of fraud committed by financial institutions and individuals.

### **Wells Fargo Agrees to Pay \$3 Billion to Resolve Criminal and Civil Investigations into Sales Practices Involving the Opening of Millions of Accounts Without Customer Authorization**

On February 21, 2020, Wells Fargo & Co. and its subsidiary, Wells Fargo Bank, N.A., agreed to pay \$3 billion to resolve three separate matters stemming from a years-long practice of pressuring employees to meet unrealistic sales goals – which led thousands of employees to provide millions of accounts or products to customers under false pretenses or without consent, often by creating false records or misusing customers' identities.

As part of the agreements, Wells Fargo admitted that it collected millions of dollars in fees and interest to which the company was not entitled, harmed the credit ratings of certain customers, and unlawfully misused customers' sensitive personal information.

The criminal investigation into false bank records and identity theft is being resolved with a deferred prosecution agreement in which Wells Fargo will not be prosecuted during the three-year term of the agreement if it abides by certain conditions, including continuing to cooperate with ongoing investigations. Wells Fargo also entered a civil settlement agreement under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) based on Wells Fargo's creation of false bank records. Wells Fargo also agreed to the U.S. Securities and Exchange Commission (SEC) instituting a cease-and-desist proceeding finding violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The \$3 billion payment resolves all three matters and includes a \$500 million civil penalty to be distributed by the SEC to investors.

The 16-page statement of facts accompanying the deferred prosecution agreement and civil settlement agreement outlines a course of conduct over 15 years at Well Fargo's Community Bank, which was then the largest operating segment of Wells Fargo, consistently generating more than half of the company's revenue.

The top managers of the Community Bank were aware of the unlawful and unethical gaming practices as early as 2002. However, Community Bank senior leadership failed to take sufficient action to prevent and reduce the incidence of such conduct. Senior leadership of the Community Bank minimized the problems to Wells Fargo management and its board of directors, by casting the problem as driven by individual misconduct instead of the sales model itself. Community Bank senior leadership viewed negative sales quality and integrity as a necessary byproduct of the increased sales and as merely the cost of doing business.

Wells Fargo caused the FHLBank of Des Moines to make advances totaling \$77 billion—more than it was entitled to receive—by fraudulently misstating its size and growth. Wells Fargo’s misstatement had a negative effect on its value and stability, and caused the FHLBank of Des Moines both to downgrade Wells Fargo’s rating and significantly reduce its advances.

### **Former Deutsche Bank Executive To Pay \$500,000 in Civil Penalties to Resolve Claims for Fraud in Sale of Residential Mortgage-Backed Securities, New York**

On November 13, 2019, the United States reached an agreement with Paul Mangione, a former Deutsche Bank executive, to settle a civil action filed in September 2017 in which the United States sought civil penalties for Mangione’s conduct in connection with Deutsche Bank’s marketing and sale of two Residential Mortgage-Backed Securities (RMBS) in 2007. The agreement provides for payment of \$500,000 in civil penalties in exchange for dismissal of the complaint.

The complaint in the action, *United States v. Paul Mangione*, alleged that Mangione, a former Managing Director and head of subprime trading at Deutsche Bank, engaged in a scheme to defraud investors in two Deutsche Bank RMBS, ACE 2007-HE4 and ACE 2007-HE5, by misrepresenting the characteristics of the loans backing the two securities and misleading potential investors about the loan origination practices of Deutsche Bank’s wholly-owned subsidiary, DB Home Lending LLC (f/k/a Chapel Funding, LLC), which originated a number of the loans backing the two RMBS. The complaint stated claims for relief under FIRREA, based on mail fraud and wire fraud.

The settlement agreement does not constitute an admission by Mangione of any of the facts or of liability or wrongdoing by Mangione, and there has been no trial or adjudication or judicial finding of any issue of fact or law.

## **Investigations: Criminal Cases**

Below we highlight some OIG criminal investigations during this semiannual reporting period in a number of different categories. These investigations resulted in criminal charges, trial convictions, plea agreements, sentencing, and court-ordered fines, forfeitures, and restitution judgments.

A summary of publicly reportable investigative outcomes for each criminal category during this reporting period and a description of each category may be found at Appendices C-J.

### **Condo Conversion and Builder Bailout Schemes**

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the

properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often **default** and go into foreclosure, causing the lenders to suffer large losses.

### **Real Estate Developer and Mortgage Broker Plead Guilty, Florida**

During November 2019, Mordechai Boaziz and Jonathan Marmol pled guilty to conspiracy to make false statements to financial institutions for their roles in a condominium conversion fraud scheme.

According to their plea agreements, Boaziz and Marmol conspired with others to execute a scheme to influence the credit decisions of financial institutions in connection with the sale of condominium units at The Preserve at Temple Terrace, a 392-unit condominium complex. Boaziz was converting The Preserve from an apartment complex into a condominium complex and hired Marmol to market the units.

To recruit and entice otherwise unqualified buyers to purchase units at The Preserve, the conspirators offered to pay the prospective buyers' down payments ("cash-to-close"). The conspirators then intentionally concealed from the financial institutions the cash-to-close payments made on behalf of the buyers.

In particular, the HUD-1 Settlement Statements submitted to the financial institutions falsely stated that the buyers brought their own cash-to-close funds to purchase the condominium units, which influenced the financial institutions' mortgage loan approval decisions. In reality, Boaziz funded the buyers' cash-to-close and routed the payments through Marmol and others. As a result of the conspiracy, the Enterprises and financial institutions that financed the condominium unit purchases at The Preserve sustained a total loss of approximately \$5 million.

### **Real Estate Developer Sentenced for Bank Fraud, Florida**

On February 18, 2020, Marek Harrison was sentenced to 20 months in prison, 2 years of supervised release, and ordered to pay over \$2.7 million in restitution, jointly and severally, for his role in a bank fraud scheme. Harrison previously pled guilty to bank fraud.

According to court documents, Harrison created and executed a mortgage fraud scheme involving Saratoga Resort Villas, a condominium conversion of a former hotel in Kissimmee, Florida. Harrison's scheme to defraud financial institutions involved kickbacks of mortgage proceeds to buyers and co-conspirators, as well as misrepresentations regarding the source of down payment funds for the transactions. None of the incentives and kickbacks were disclosed to the mortgage lenders. Harrison also recruited otherwise unqualified buyers, and he provided down payment money for the buyers.

The fraud scheme resulted in approximately \$8.3 million in exposure to the Enterprises and lenders.



## Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make.

### **Guilty Plea of Loan Originator in Origination Scheme, Illinois**

On January 29, 2020, Ryan Bailey, a licensed loan originator, pled guilty to bank fraud for his role in an origination fraud scheme.

According to an information, Bailey, along with others, caused buyers to fraudulently obtain mortgage loans from lenders in excess of \$1.5 million by making materially false representations in documents submitted to lenders, including loan applications, the buyers' financial condition, employment, income, assets, source of earnest money, rental payment history, and intent to occupy the properties. The Enterprises suffered losses as a result of this scheme.

## Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant **upfront fees** or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position.

### **Sentencing in Scheme Targeting Homeowners Facing Foreclosure, Kansas**

On October 30, 2019, Ruby Price was sentenced to one year and one day in prison, three years of supervised release, and ordered to pay over \$1.3 million in restitution, jointly and severally, for her role in a loan modification/foreclosure rescue fraud scheme. Price previously pled guilty to conspiracy to commit mail and wire fraud.

According to court documents, Price operated the Arize Group, Incorporated, and co-defendants operated Reliant Home Financial Group. Together they defrauded homeowners by falsely promising protection from foreclosure. Price and her co-defendants fraudulently promised the victims to lower their interest rates, lower their monthly mortgage payments, and help them obtain loan modifications. When victims received foreclosure notices, the defendants told them not to worry about it. In some instances, the victims would stop making their monthly mortgage payments to their lenders and instead, make payments to Reliant Home Financial Group or Arize Group, Incorporated. The co-defendants used the victims' monies for personal gain.

The investigation revealed that the scheme involved over 550 victims across 24 states, who suffered combined losses of over \$1.2 million. Additional losses exist from fees paid to lenders as well as losses suffered by the Enterprises and lenders by subsequent foreclosures.

## **Short Sale Schemes**

Short sales occur when a lender allows a borrower who is “**underwater**” on his/her loan – that is, the borrower owes more than the property is worth - to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale.

### **Mortgage Short Sale Negotiator Sentenced and Co-Defendant Charged for Defrauding Mortgage Lenders, Massachusetts**

On February 25, 2020, Jaime Mulvihill was sentenced to six months in prison, two years of supervised release, and ordered to pay \$478,458 in restitution, joint and several, and \$239,229 in forfeiture in connection with defrauding mortgage lenders and investors of nearly \$500,000 in proceeds from about 90 short sale transactions. Mulvihill previously pled guilty to conspiracy to commit wire fraud.

Mulvihill and her co-defendant Gabriel Tavarez founded and operated Loss Mitigation Services, LLC. The charges arise out of the defendants’ scheme to steal undisclosed and improper fees from mortgage lenders in connection with short sales of homes.

Loss Mitigation Services, purportedly acting on behalf of underwater homeowners, negotiated with mortgage lenders for approval of short sales in lieu of foreclosure. Mortgage lenders typically forbid short sale negotiators, such as Loss Mitigation Services, from receiving any proceeds of a short sale.

Mulvihill and, allegedly, Tavarez, directly or through their employees, falsely claimed to homeowners, real estate agents, and closing attorneys that mortgage lenders had agreed to pay Loss Mitigation Services fees known as “seller paid closing costs” or “seller concessions” from the proceeds of the short sales. In reality, the mortgage lenders had never approved Loss Mitigation Services to receive those fees. When the short sales closed, at the instruction of Mulvihill, or others working with her and Tavarez, settlement agents paid Loss Mitigation Services the fees, which typically were 3% of the short sale price above and beyond any fees to real estate agents, closing attorneys, and others involved in the transaction. To deceive mortgage lenders about the true nature of the fees, Mulvihill or Tavarez filed, or caused others to file, false short sale transaction documents with mortgage lenders, including altered settlement statements and fabricated contracts and mortgage loan preapproval letters. Mulvihill and, allegedly, Tavarez, fabricated the transaction documents, or caused them to be fabricated, to justify the additional fees and conceal that they were being paid to Loss Mitigation Services.

The Enterprises suffered losses as a result of this scheme. Tavaréz was previously indicted and is awaiting trial.

## **Property Management and REO Schemes**

Numerous foreclosures left the Enterprises with an inventory of REO properties. The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.

### **Ex-Fannie Mae Employee Gets Over 6 Years in Prison for Bribery Scheme with Millions of Dollars in Corrupt Commissions and Sales, California**

On January 14, 2020, Shirene Hernandez was sentenced to 76 months in prison and 3 years of supervised release for her role in a multimillion-dollar scheme to take bribes and to discount sales of Fannie Mae-owned properties to herself and to real estate brokers in exchange for cash kickbacks. Hernandez was additionally ordered to pay \$982,516 in restitution and forfeiture of real property, valued at approximately \$1.1 million.

After a five-day trial in 2019, a jury found Hernandez guilty of wire fraud involving deprivation of honest services in furtherance of her scheme, which resulted in more than \$120 million in sales and more than \$3 million in corrupt commissions to brokers. The brokers who benefited from the sales paid the bribes and kickbacks to Hernandez in cash, which sometimes was stuffed into envelopes and delivered in parking lots, airports, and coffee shops.

The evidence at trial showed that the bribery scheme arose out of Hernandez's misuse of her official position with Fannie Mae. Hernandez worked as a sales representative for Fannie Mae at its Irvine, California office. As part of its operations, Fannie Mae buys properties through foreclosures and other methods, and sales representatives then manage and sell those properties for Fannie Mae's benefit.

As a sales representative, Hernandez was responsible for picking real estate brokers to whom she assigned Fannie Mae-owned property listings. Brokers sought the listings because they would obtain commissions on them when the properties were sold. In violation of Fannie Mae rules and federal law, Hernandez demanded and received bribes from the brokers as a condition of her assignment of properties to them. As part of the scheme, she also received bribes for approving below-market sale prices of Fannie Mae-owned properties to the corrupt brokers.

Hernandez – using intermediaries and alter egos – bought at least one Fannie Mae-owned property in Sonoma for herself at a below-market price. She ensured that multiple offers higher than her own below-market price were rejected. Hernandez then paid for the property using a duffel bag filled with \$286,450 in cash, which she gave to her sister-in-law to bring to the sale's closing.

Hernandez also helped family members become Fannie Mae-approved brokers, and then steered nearly \$80 million in Fannie Mae listings to them, resulting in nearly \$2 million in commissions in less than three years.

In total, Hernandez received more than \$1 million in benefits, including rent and cash kickbacks that she collected as well as equity that she built in the Fannie Mae property she bought for herself.

### **Couple and Co-Conspirator Sentenced for REO Bid-Rigging Scheme, Massachusetts**

During January 2020, Talal Soffan was sentenced to 30 months in prison and 5 years of supervised release, and Joanne and James Murray were sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$191,094 in restitution, jointly and severally, for their roles in a bid-rigging and kickback scheme.

Talal previously pled guilty to making false statements to a federally insured financial institution, wire fraud, aggravated identity theft, conspiracy, and bank fraud. The Murrays previously pled guilty to conspiracy to commit mail fraud, aggravated identity theft, and tax evasion.

Joanne Murray worked at a real estate brokerage that managed hundreds of foreclosed properties owned by Freddie Mac. Joanne, James, Soffan, and others agreed to submit fraudulent “reimbursements” by the brokerage to Freddie Mac for James’s company, amounting to approximately \$1,372,099 in repair, improvement, and maintenance projects. After Freddie Mac paid the purported reimbursements, the brokerage paid James approximately 90% of those amounts and retained an approximately 10% skim. Joanne ensured that James’s company would win these projects by submitting fraudulent bids to Freddie Mac by purported competitors. To avoid detection by Freddie Mac, Joanne submitted bids in the name of a friend of the Murrays, without his knowledge, instead of James’s company, for work that was ultimately performed by James’s company.

### **Couple Sentenced for Long-Running Real Estate Fraud Scheme, Minnesota**

On January 21, 2020, Detloff Marketing and Asset Management Inc. (Detloff Marketing), a real estate company based in Hopkins, Minnesota; its owner, Jeffery Detloff; and its accountant, Lori Detloff, were sentenced for their participation in a long-running fraudulent bidding and kickback scheme in connection with foreclosed properties.

Jeffrey Detloff was sentenced to 16 months in prison and two years of supervised release. Lori Detloff was sentenced to seven months in prison and one year of supervised release. Detloff Marketing was ordered to pay a \$593,000 criminal fine. Additionally, Jeffrey and Lori Detloff were ordered to pay \$291,505 in restitution, jointly and severally.

According to court documents, Jeffery Detloff conspired to defraud mortgage lenders and guarantors who had hired Detloff, a real estate agent, to oversee maintenance and repairs on

foreclosed homes in the Minneapolis-St. Paul area. Jeffery Detloff steered maintenance and repair contracts to contractors who would pay a kickback to Detloff Marketing. Unbeknownst to his customers, Jeffery Detloff and Detloff Marketing included the kickbacks within bids and invoices sent to the lender or guarantor for reimbursement on maintenance and repairs. Lori Detloff was an accountant responsible for ensuring the kickbacks were paid by contractors to Detloff Marketing. In all, Detloff Marketing received over \$291,505 in kickbacks.

Detloff Marketing and Jeffery Detloff pled guilty to conspiracy to commit mail and wire fraud affecting a financial institution. Lori Detloff pled guilty to aiding and abetting.

The Enterprises suffered losses through this scheme because of the false and fraudulent invoices submitted to victim companies for maintenance and repair work performed on Enterprise-owned REO properties.

### **Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes**

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners.

#### **Foreclosure Rescue Scheme Operator Sentenced to 12 Years in Prison, Wisconsin**

On March 17, 2020, Aston Wood was sentenced to 12 years in prison and 6 years of supervised release for a mortgage rescue scheme that defrauded more than 70 Wisconsin homeowners. Wood previously pled guilty to wire fraud and bankruptcy fraud.

According to court documents, Wood defrauded more than 70 Wisconsin homeowners of approximately \$390,000. Unfortunately, many homeowners lost their homes in connection with the scheme. Using the names ASC Financial, LLC, and Maywood Capital II, LLC, Wood solicited people facing the possibility of foreclosure and represented to them that he could help them stay in their home by obtaining loan refinancing or modification. He told customers that to stop foreclosures, they had to immediately begin making mortgage payments toward a new loan as part of a trial period while he worked out the details of the loan with the mortgage lenders. Wood instructed customers to make these mortgage payments to businesses he controlled under the premise that he would forward the payments to the customers’ mortgage lenders.

Wood was able to collect mortgage payments from homeowners for months, even years, by falsely reassuring them that their payments were going to their mortgage lenders and that new loans were being finalized. In fact, Wood’s bank records confirmed he deposited the customers’ mortgage payments and spent their money on his own travel and living expenses. When

customers eventually lost their homes in foreclosure, Wood told them that it was due to the mortgage lenders' greed or negligence.

Wood further defrauded some homeowners after they lost their homes by falsely telling them that he would use the money to help them buy back their foreclosed property or use the money to sue the mortgage companies.

As part of his fraud scheme, Wood advised many customers to file bankruptcy in the Western District of Wisconsin. The automatic stay triggered by the bankruptcy filings temporarily stalled the foreclosures, which extended the time in which Wood could collect the monthly mortgage payments. In November 2016, the U.S. Trustee's Office began investigating Wood and in October 2017, a U.S. Bankruptcy Judge issued an injunction permanently barring Wood from soliciting, offering to perform, or performing services relating to mortgage foreclosure and debt relief. Despite the court order, Wood continued to engage in mortgage rescue fraud under a new business name.

The Enterprises were victims of this scheme.

### **Sentencing in Fraudulent Lien and Deed Scheme, California**

On March 3, 2020, James Rojas was sentenced to 164 months in prison, and ordered to pay \$944,450 in restitution and a fine of \$502,700. Rojas was previously convicted after a trial on charges of foreclosure consultant fraud, grand theft, and recording false documents.

Rojas targeted real estate owned by senior citizens in Ventura County, California. Using various fraudulent schemes, Rojas targeted his victims' properties with false liens and deeds that clouded lawful title on each affected property. In one instance, Rojas defrauded an elderly victim by convincing him to sign a deed outside of escrow for property Rojas promised to purchase for \$1.8 million. Rojas then recorded the deed without paying the victim anything in return.

The Enterprises were victims of this scheme.

### **Trial Conviction of Real Estate Agent and Sentencing of Financial Planner, Florida**

On January 30, 2020, a federal jury found Tanya Firmani guilty of conspiracy to commit bankruptcy fraud and bankruptcy fraud.

According to testimony and evidence presented at trial, Firmani conspired with others in a foreclosure rescue/bankruptcy fraud scheme. Firmani solicited homeowners whose mortgages were in default and offered to rescue their homes from foreclosure. To prevent the Enterprises and multiple financial institutions from lawfully foreclosing on homeowners' properties, Firmani filed or caused the filing of fraudulent bankruptcy petitions in the homeowners' names just prior to the scheduled foreclosure sale dates. The fraudulent bankruptcies triggered the Bankruptcy Code's automatic stay provision, preventing the Enterprises and the financial institutions from

conducting foreclosure sales and obtaining the titles to the properties. The fraudulent bankruptcy petitions enabled Firmani to collect fees and allowed her co-conspirators to obtain ill-gotten commissions for short sales causing losses to creditors.

In a related case, on February 3, 2020, Hedley John was sentenced to 2 years of probation for his role in this scheme. John previously pled guilty to bankruptcy fraud.

According to his plea agreement, John, a financial planner, and others offered distressed homeowners facing foreclosure the chance to save their homes through short sales. To accomplish this, for a fee, the co-conspirators filed fraudulent bankruptcy petitions, knowing that the filing would invoke the automatic stay provision of federal bankruptcy law and prevent creditors, including the Enterprises, from lawfully foreclosing while also allowing time for the short sale to occur.

John enriched himself through real estate commissions and bankruptcy petition preparation fees earned through the short sale transactions.

The Enterprises suffered losses in this scheme.

### **Sentencings and Orders of Restitution and Forfeiture in Real Estate Fraud Scheme Targeting Distressed Homeowners, California**

Between October and December 2019, Lidia Alvarez and Eugene Fulmer were sentenced to 12 and 24 months in prison, respectively, for their roles in a deed fraud scheme. In addition, Alvarez was sentenced to one year of supervised release, and Fulmer was sentenced to three years of supervised release. Both defendants previously pled guilty to conspiracy charges: Alvarez for conspiracy to commit bankruptcy fraud and Fulmer for conspiracy to commit mail fraud. Fulmer also pled guilty to bankruptcy fraud.

According to court documents, Alvarez, Fulmer, and others filed and assisted others in filing fraudulent documents on title to victim homeowners' properties. The co-defendants then used the fraudulent filings to steal properties from homeowners, extort settlement payments from them, and obtain payments from them for illegal foreclosure and eviction delay services.

On February 21, 2020, in a related case, Michael Henschel was ordered to pay over \$7.8 million in forfeiture of real property and nearly \$4 million in restitution. Henschel was previously sentenced to 240 months in prison and three years of supervised release for his role in this scheme.

Losses to the Enterprises, financial institutions, and homeowners are more than \$10 million.

## **Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions**

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

### **FHLBank Executives Sentenced, Texas**

During December 2019, the former FHLBank-Dallas President and CEO, as well as the former Chief Information Officer, were each sentenced to 60 months in prison, two years of supervised release, and ordered to pay restitution and attorney fees to the FHLBank of Dallas and its insurance carriers, totaling over \$5 million.

Terence Smith, former FHLBank-Dallas President and CEO, and Nancy Parker, former Chief Information Officer, both previously pled guilty to conspiracy to make false statements to a Federal Home Loan Bank several days into their trial in a federal district court.

In their plea agreements, the pair admitted they submitted dozens of fraudulent expense reports to the FHLBank, claiming they had attended professional conferences they never visited—prompting the FHLBank to foot the bill for what was actually personal travel to Florida, California, and Nevada. They also admitted to repeatedly falsely reporting their number of unused vacation hours.

In November 2019, former FHLBank-Dallas Chief Financial Officer Michael Sims was sentenced to five years of probation and ordered to pay over \$80,000 in restitution. Sims previously pled guilty to misprision of a felony.

The scheme cost the FHLBank more than \$1.2 million—\$780,000 in travel expenses, including airfare, limousine rides, concerts, vineyard tours, luxury hotel rooms, and lavish meals for Smith, Parker, Sims, and several colleagues, and \$450,000 in unused vacation time reimbursements.

### **Former Bank Executive Pled Guilty in Embezzlement Fraud Scheme, Tennessee**

On November 26, 2019, Connie Clabo pled guilty to charges of theft, embezzlement, and willful misapplication of moneys, funds, and credits of a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC) and willfully filing a false federal income tax return for her participation in a bank embezzlement fraud scheme to obtain more than \$600,000.

According to court documents, Clabo was the Vice President of Loan Operations at SmartBank responsible for overseeing the accurate entry of financial transactions into the bank's general ledger system. Clabo admitted abusing her position of private trust with SmartBank to embezzle more than \$600,000. To do this, Clabo manipulated SmartBank's general ledger to fund 60



cashier's checks, which were then deposited into either Clabo's personal bank account to pay her living expenses and to support her lifestyle or directly to third parties to whom she owed money.

Additionally, Clabo manipulated SmartBank's general ledger system to fraudulently reduce her parents' home mortgage loan by \$46,000 to under \$400. The following day, Clabo's mother paid off her mortgage in full, then Clabo personally notarized the release of the deed of trust that secured SmartBank's mortgage loan to her parents' property. Similarly, Clabo manipulated SmartBank's general ledger system to fraudulently pay off her own SmartBank home mortgage loan amount of over \$200,000, releasing the deed that secured her mortgage loan.

SmartBank, Clabo's employer and the victim bank, is a member bank of the FHLBank of Cincinnati.

#### **Four Individuals Sentenced in \$396 Million Fraud Scheme, Maryland**

Between October 2019 and January 2020, four individuals were sentenced for their participation in a \$396 million investment fraud scheme that operated from 2013 through September 2018.

According to court documents, Jay Ledford, a certified public accountant, started a company that purchased consumer debt portfolios—defaulted consumer debts owed to banks and others—which he sold to third party debt collectors. Ledford also solicited investors to supply capital to buy a portfolio or invest in his company. After learning of Ledford's financial success, Kevin Merrill formed his own debt collection business and obtained capital investors, but never purchased debt portfolios.

Beginning in 2013, Ledford, Merrill, and Cameron Jezierski perpetrated a Ponzi scheme which defrauded investors of more than \$396 million. Specifically, Merrill and Ledford invited investors to join them in purchasing consumer debt portfolios. Ledford provided to Merrill fictitious sales agreements and other documents, including false tax returns, knowing that Merrill was using them to induce individuals to invest in his companies.

Ledford and Merrill falsely represented that the monies the conspirators paid to investors were "proceeds" from collections and/or flipping debt portfolios, when in fact, the proceeds were paid from funds provided by other investors. Merrill and Ledford provided monthly or quarterly reports to investors regarding the "purported progress of the portfolio and its recovery," which Ledford and Merrill created. The scheme to defraud took in over \$396 million, and at the time of their arrests, the co-conspirators were attempting to obtain an additional \$260 million from investors.

As part of the scheme, Merrill purchased a \$10.5 million home in Naples, Florida, using a \$4.5 million loan obtained from Florida Community Bank; that loan was pledged to the FHLBank of Atlanta. Additionally, Merrill obtained from an FHLBank member bank a \$750,000 HELOC for a Maryland property he bought with stolen investor funds, and used the proceeds of this loan to continue the Ponzi scheme and pay investors.

For their roles in perpetrating this scheme, Ledford, Merrill, and Jezierski previously pled guilty to conspiracy to commit wire fraud. In addition to this charge, Ledford pled guilty to aggravated identity theft and a money-laundering transaction, and Merrill pled guilty to wire fraud.

Merrill was sentenced to 22 years in prison, 3 years of supervised release, and ordered to pay \$189,166,116 in restitution. Ledford was sentenced to 14 years in prison, 3 years of supervised release, and ordered to pay \$189,166,116 in restitution. Jezierski was sentenced to 24 months in prison, 2 years of supervised release, 1 year of home confinement, and ordered to pay \$116,435 in forfeiture and \$45,093,384 in restitution. The orders of restitution entered against Merrill, Ledford, and Jezierski are to be applied jointly and severally.

## **Law Enforcement Outreach**

OIG develops public-private partnerships where appropriate. During this reporting period, OIG delivered 38 fraud awareness briefings to diverse audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed ongoing and close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; FDIC-OIG; IRS-CI; the U.S. Trustee Program (nationwide); FinCEN; state attorneys general; mortgage fraud working group; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae and Freddie Mac to combat fraud.

During this reporting period, OIG worked with additional local and state partners, including: the Ventura County (CA) District Attorney's Bureau of Investigation; the Stanislas County (CA) District Attorney's Office; the Alameda County (CA) District Attorney's Office; the El Dorado County (CA) District Attorney's Office; the Los Angeles County Recorder's Office; the Alameda County (CA) Recorder's Office; the San Diego County (CA) Recorder's Office; the California Department of Justice, Fraud and Special Prosecutions Section and White Collar Crime Team; the King County (WA) District Attorney's Office; the Florida Department of Financial Services; the Miami-Dade Police Department; the Hillsborough County (FL) Sheriff's Office; the Georgia Bureau of Investigations; the Illinois State Police; the Illinois Attorney General's Office; the Dallas District Attorney's Office; and the Cedar Hill (TX) Police Department.

## **Investigations: Administrative Actions**

In addition to the criminal cases brought as a result of OIG investigations, OI's investigative work regularly results in administrative referrals to other entities for action. For example, a criminal case of mortgage fraud that results in a guilty plea by a licensed real estate agent, attorney, or certified public accountant for participation in a bank fraud scheme might result in a referral by OIG to

a state licensing body for disciplinary actions. When a real estate professional is prosecuted for mortgage fraud, that prosecution may cause OIG to refer the matter to another federal agency for possible suspension or debarment of that individual from participation in federal programs. During this reporting period, OIG made 34 such referrals for suspension and debarment.

## Suspended Counterparty Referrals

FHFA has adopted a Suspended Counterparty Program under which it issues “suspension orders directing the regulated entities to cease or refrain” from doing business with counterparties (and their affiliates) that were previously found to have “engaged in covered misconduct.” Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, “covered misconduct” includes convictions or administrative sanctions within the past three years based on fraud or similar misconduct in connection with the mortgage business. FHFA issues suspension orders if the misconduct “is of a type that would be likely to cause significant financial or reputational harm to a regulated entity or otherwise threaten the safe and sound operation of a regulated entity.”<sup>6</sup>

During this reporting period, OIG made 20 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program and additional suspension/debarment referrals to other agencies, summarized below.

<b>Administrative Actions</b>	
October 1, 2019 – March 31, 2020	
Suspension/Debarment Referrals to Other Agencies	34
Suspended Counterparty Referrals to FHFA	20

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<sup>6</sup> [FHFA Suspended Counterparty Program, 12 C.F.R. pt. 1227](#) (2020).

# OIG's Regulatory Activities and Outreach

## Regulatory Activities

Pursuant to the Inspector General Act, OIG assesses whether proposed legislation and regulations related to FHFA are efficient, economical, legal, or susceptible to fraud and abuse. OIG is currently assessing proposed, interim final, and final rules published by FHFA in the *Federal Register*. Any recommendations or comments upon those rules will be made after these assessments conclude.

## Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system, and the 2008 financial crisis showed that financial distress at the Enterprises can threaten the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy, and decisions were made to invest \$191.5 billion in the Enterprises. The continuing significant role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during this reporting period include the following:

### Congress

To fulfill its mission, OIG works closely with Congress and is committed to keeping it fully apprised of our oversight of FHFA. During this semiannual reporting period, OIG provided information to and discussed OIG work with congressional staff as requested.

### Hotline

The OIG hotline serves as a vehicle through which employees of the Agency, the Enterprises, and FHLBanks and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. Potential criminal violations are investigated

by OI, and civil or administrative matters are referred to the appropriate senior career executive in an OIG operating division for investigating. During this reporting period, 519 discrete contacts to the hotline were made involving tips, complaints, and referrals (TCRs), and 108 separate TCRs were logged by the hotline.

For more information about OIG's hotline, including OIG contact information, see <https://www.fhfaig.gov/ReportFraud>.

## **Close Coordination with Other Oversight Organizations**

During the reporting period, OIG maintained active participation in coordinated oversight activities involving the following organizations:

### **FBI Cybercrimes Task Force**

The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG assigns special agents to assist with task force law enforcement activities. This multiagency task force focuses on investigating cybercrimes. OIG makes these assignments to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort helps prosecute cybercriminals and stop cyberattacks made against institutions maintaining PII, trade secrets, and financial data.

### **CIGIE**

OIG actively participates in several CIGIE committees and working groups, including the Audit Committee, the Inspection and Evaluation Committee, and the Investigations Committee.

### **Council of Inspectors General on Financial Oversight (CIGFO)**

CIGFO was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** to oversee FSOC, which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The FHFA IG is a statutory member of CIGFO, along with the IGs of Treasury, FDIC, the Securities and Exchange Commission, and others. By statute, CIGFO may convene working groups to evaluate the effectiveness and internal operations of FSOC.

During this semiannual period, a CIGFO working group in which OIG participated completed a survey of FSOC and its federal member agencies, including FHFA, on their efforts to implement the information sharing provisions between the public and private sections under Title I, the Cybersecurity Information Sharing Act (CISA), of the Cybersecurity Act of 2015.

We undertook this survey, in part, to provide FSOC and its federal voting member agencies with comparative information on how these agencies have implemented CISA. (See CIGFO, [\*Survey Results—CIGFO Working Group’s Survey of FSOC and its Federal Member Agencies’ Efforts to Implement the Cybersecurity Act of 2015\*](#) (CIGFO-2020-01, January 15, 2020)).

## **Public-Private Partnerships**

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak with officials at the Enterprises and the FHLBanks to benefit from their insights. We also make presentations to academic and industry groups. Recent presentations include: the Cook County (Illinois) Regional Organized Crime Task Force; the Palm Beach County (FL) Economic Crimes/Intelligence Working Group; the Treasure Coast (FL) Economic Crimes Working Group; Virginia Department of Professional and Occupational Regulation; Palm Beach (FL) County Elder Abuse Task Force; the Intel and Law Enforcement Training Seminar (INLETS); the Illinois Fraud Working Group; Bureau of Financial Institutions – Virginia State Corporate Commission; the South Florida Organized Fraud Task Force; Hamilton Group Funding; United States Appraisals; Missouri Real Estate Commission; and FLAGG (Financial, Law Enforcement, and Government Group).

# Appendices

## Appendix A: Information Required by the Inspector General Act

Section 5(a) of the Inspector General Act, as amended, provides that OIG shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing our activities during the immediately preceding six-month periods ending March 31 and September 30.

Below, OIG presents a table that directs the reader to the pages of this report on which various information required by the Inspector General Act, as amended, may be found.

Source/Requirement	Pages
Section 5(a)(1) – A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.	10-15, 20-34
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	20-34, 64-95
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	64-95
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	35-53, 96-112
Section 5(a)(5) – A summary of each report made to the Director of FHFA about information or assistance requested and unreasonably refused or not provided.	N/A
Section 5(a)(6) – A listing, subdivided according to subject matter, of each audit and evaluation report issued by OIG during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.	20-34, 59
Section 5(a)(7) – A summary of each particularly significant report.	16-34
Section 5(a)(8) – Statistical tables showing the total number of audit and evaluation reports and the total dollar value of questioned and unsupported costs.	3, 59
Section 5(a)(9) – Statistical tables showing the total number of audit and evaluation reports and the dollar value of recommendations that funds be put to better use by management.	3, 59
Section 5(a)(10)(A) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.	59
Section 5(a)(10)(B) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency.	59

Source/Requirement	Pages
Section 5(a)(10)(C) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.	64-95
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	60
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	60
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	60
Section 5(a)(14) – An appendix containing the results of any peer review conducted by another IG; or the date of the last peer review if no peer review was conducted during the reporting period.	60-61
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	60-61
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	60-61
Section 5(a)(17) – Statistical tables showing, for the reporting period, the total number of: investigative reports issued; persons referred to DOJ for criminal prosecution; persons referred to State and local prosecuting authorities for criminal prosecution; and indictments and criminal informations that resulted from any prior referral to prosecuting authorities.	36
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	36
Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including the name of the official if already made public by OIG, a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	61
Section 5(a)(20) – A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences FHFA imposed to hold that official accountable.	61-62
Section 5(a)(21) – A detailed description of any attempt by FHFA to interfere with the independence of OIG, including with budget constraints designed to limit OIG’s capabilities, and incidents where FHFA has resisted or objected to OIG oversight activities or restricted or significantly delayed access to information.	63
Section 5(a)(22)(A) – Detailed descriptions of the particular circumstances of each evaluation and audit conducted by OIG that is closed and was not disclosed to the public.	63
Section 5(a)(22)(B) – Detailed descriptions of the particular circumstances of each investigation conducted by OIG involving a senior Government employee that is closed and was not disclosed to the public.	61-63



## Reports Identifying Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management Issued During the Semiannual Period

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its audit reports, inspection reports, and evaluation reports issued during the semiannual period and include for each report, where applicable, questioned costs, unsupported costs, and funds to be put to better use. Section 5(a)(8) and section 5(a)(9), respectively, require OIG to publish statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. Oversight conducted by OIG is not limited to reports issuing from inspections, audits, and evaluations. OIG also issues other reports in furtherance of its mission, including management alerts and advisories, special reports, and compliance reviews. During this reporting period, OIG issued one report with questioned costs, *Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs* (OIG-2020-001), as summarized in the figure below. No management decision had been made by the end of this reporting period with respect to these questioned costs.

**Funds to be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period October 1, 2019 – March 31, 2020**

Report Issued	Recommendation No.	Date	Potential Monetary Benefits		
			Questioned Costs	Unsupported Costs	Funds Put to Better Use
OIG-2020-001	1	March 3, 2020	\$80,985	\$-	\$-
<b>Total</b>			<b>\$80,985</b>	<b>\$-</b>	<b>\$-</b>

### Reports with No Management Decision

Section 5(a)(10)(A) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. There were no reports issued before October 1, 2019, that await a management decision.

### No Agency Response Within 60 Days

Section 5(a)(10)(B) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency. There were no reports issued before October 1, 2019, for which OIG did not receive a response within 60 days of providing the report to the Agency for comment.

## **Significant Revised Management Decisions**

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended March 31, 2020, there were no significant revised management decisions by FHFA.

## **Significant Management Decisions with Which the Inspector General Disagrees**

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in disagreement. During the six-month reporting period ended March 31, 2020, there were no significant management decisions by FHFA with which the Inspector General disagreed.

## **Federal Financial Management Improvement Act of 1996**

Section 5(a)(13) of the Inspector General Act, as amended, requires that OIG report information concerning instances of and reasons for failures to meet any intermediate target dates from remediation plans designed to remedy findings that the Agency's financial management systems do not comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. For the six-month reporting period ended March 31, 2020, this reporting provision did not apply to the Agency or OIG.

HERA requires GAO to audit FHFA financial statements. In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2019 and 2018 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be material weaknesses or significant deficiencies. GAO also reported that its test for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no reportable instances of noncompliance.

## **Peer Reviews**

Sections 5(a)(14), (15), and (16) of the Inspector General Act, as amended, require that OIG provide information relevant to the semiannual period on any peer reviews of OIG, unimplemented recommendations from any peer reviews of OIG, and any peer reviews conducted by OIG.

The most recent peer review of our audit organization was conducted by the Library of Congress OIG and reported on September 11, 2019. OIG received an external peer review rating of pass, the highest rating an audit organization can receive.

The most recent peer review of our OE and OCom functions was conducted by a CIGIE external peer review team led by HUD-OIG, and reported on September 10, 2019. The review team recognized several of our practices as “best practices.” The team also determined that our policies and procedures met the seven Blue Book standards addressed in that review: quality control, planning, data collection and analysis, evidence, records maintenance, reporting, and followup. The team concluded that the six evaluation reports it tested met the Blue Book standards, but one report did not comply with internal policies and procedures for planning. No recommendations were issued from that review.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission (NRC) OIG and reported on July 12, 2017. NRC-OIG issued an Opinion Letter and a Letter of Observations detailing the results of its review. In the Opinion Letter, NRC-OIG reported that OIG’s system of internal safeguards and management procedures for our investigative function is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. In the Letter of Observations, NRC-OIG recognized OIG for employing five “best practices” in its investigative operations.

Copies of our peer review reports are on OIG’s website under [Current Peer Review Reports](#).

During this semiannual reporting period, OIG led an external peer review of the evaluation function of the Office of Inspector General for the Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau. No recommendations were issued from that peer review.

## **Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation**

In accordance with the Inspector General Act, as amended, Sections 5(a)(19), (20), (22)(B), and 5(e), OIG is required to report certain information regarding (1) investigations involving senior government employees (SGEs) or (2) government officials found to have engaged in whistleblower retaliation. In this section, we include the results of OIG administrative inquiries as appropriate.

Sections 5(a)(19) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation it conducted involving an SGE when allegations of misconduct were substantiated. During this reporting period, OIG conducted an administrative inquiry of a hotline complaint alleging that an individual was harassing another FHFA employee. OIG concluded the alleged conduct was not a potential civil or criminal violation. Upon referral to FHFA, the agency determined the conduct constituted a personnel violation, and the SGE was disciplined.

Sections 5(a)(20) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on any instance of whistleblower retaliation by an official found to have engaged in retaliation. OIG does not have any reportable information during the applicable time frame.

Sections 5(a)(22)(B) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation involving an SGE that is closed and was not disclosed to the public.

During this reporting period, OIG completed an administrative inquiry of an anonymous hotline complaint alleging that two FHFA SGEs showed preferential treatment and took improper personnel actions. The complaint also alleged retaliatory behavior by four FHFA SGEs as a result of the complainant expressing views while performing duties. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

OIG also conducted an administrative inquiry of a hotline complaint alleging retaliatory behavior by four FHFA SGEs based on the complainant's political views. During the course of this inquiry, the hotline complainant withdrew the complaint. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

During this reporting period, OIG conducted an administrative inquiry into an anonymous complaint that an FHFA SGE was improperly appointed, did not perform full-time work hours, and received preferential treatment by FHFA management. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

In addition, OIG conducted an administrative inquiry into an anonymous allegation that FHFA senior management improperly appointed an individual to a position without following the required process. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

During this reporting period, OIG completed an administrative inquiry into an anonymous allegation that FHFA SGEs violated personnel requirements in appointing managers. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

OIG also conducted an administrative inquiry into two anonymous hotline complaints alleging that an FHFA SGE unfairly and artificially lowered performance ratings. OIG did not find sufficient evidence to support a conclusion that any violations of law, rule, or regulation occurred, and the matter was closed.

### **Audits or Evaluations that Were Closed and Not Disclosed**

Sections 5(a)(22)(A) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—the particular circumstances of each inspection, evaluation, and audit OIG conducted that is closed and was not disclosed to the public. During this reporting period, OIG did not close any inspection, evaluation, or audit without disclosing the existence of the report to the public. OIG issued several reports during this reporting period that contained information that is privileged, confidential, or could be used to circumvent FHFA’s or OIG’s internal controls, and, accordingly, OIG has not publicly disclosed such contents. We have provided unredacted reports to our congressional oversight committees.

### **Interference with Independence**

Section 5(a)(21) of the Inspector General Act, as amended, requires that OIG report any attempt by FHFA to interfere with the independence of the office, including through budget constraints designed to limit OIG’s capabilities and resistance or objection to OIG’s oversight activities or restricting or significantly delaying access to information. OIG does not have any reportable information during the applicable time frame.

## Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote economy, efficiency, and effectiveness in the Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Since OIG began operations in October 2010, we have made more than 475 recommendations. Table I (see page 65) summarizes OIG's outstanding unimplemented recommendations. Table II (see page 66) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Table III (see page 87) lists OIG's closed, unimplemented recommendations. Summaries for all reports are available on OIG's website or through the links provided in the accompanying tables. OIG also publishes a Compendium of Open Recommendations on its website.

**Table I<sup>7</sup>**  
**Summary of OIG Outstanding Unimplemented Recommendations**  
**From OIG Oversight Reports**

Fiscal Year	Number of Unimplemented Recommendations	Total Number of Reports with Unimplemented Recommendations <sup>8</sup>	Dollar Value of Aggregate Potential Cost Savings <sup>9</sup>
2013	3 open recommendations	1	\$-0-
	1 closed, rejected recommendation	1	\$-0-
2014	2 open recommendations	1	\$-0-
	8 closed, rejected recommendations	6	\$5,015,505
2015	1 open recommendation	1	\$-0-
	1 closed, rejected recommendation	1	\$-0-
2016	6 open recommendations	4	\$-0-
	13 closed, rejected recommendations	7	\$48,229,370
2017	4 open recommendations	4	\$-0-
	2 closed, rejected recommendations	1	\$56,200,000
2018	2 open recommendations	2	\$-0-
	5 closed, rejected recommendations	3	\$784,000,000 <sup>10</sup>
2019	27 open recommendations	8	\$-0-
	4 closed, rejected recommendations	2	\$-0-
2020	18 open recommendations	8	\$80,985
	2 closed, rejected recommendations	1	\$-0-
TOTAL	63 open recommendations	29	\$80,985
	36 closed, rejected recommendations	22	\$893,444,875

<sup>7</sup> This figure summarizes OIG’s outstanding unimplemented recommendations, comprised of open recommendations and closed, rejected recommendations, which were closed in light of the Agency’s permanent rejection or failure to follow through on corrective action.

<sup>8</sup> A recommendation from AUD-2016-007 is repeated in AUD-2016-006, and a recommendation in AUD-2017-010 also appears in AUD-2017-011. Also, AUD-2020-004 reaffirmed two recommendations made in EVL-2014-002, and COM-2020-001 reopened a recommendation made in EVL-2016-007. Each recommendation is only counted once; the reports are counted separately.

<sup>9</sup> Beginning this year, we include in this table potential cost savings to the Agency or the Enterprises from specific recommendations, i.e., recommendations of potential funds to be put to better use by management, questioned costs, and other monetary calculations in all OIG oversight reports supporting OIG recommendations and conclusions.

<sup>10</sup> Of this amount, \$776,300,000 relates to FHFA management’s rejection of our recommendations in OIG, [Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce](#) (OIG-2018-004, September 6, 2018). As reported in the FHFA-OIG Semiannual Report to the Congress for the 6-months ended September 30, 2018, the Inspector General disagreed with management’s decision on these recommendations. The remaining \$7.7 million relates to FHFA’s mismanagement of its Housing Finance Examiner program (see OIG, [FHFA’s Housing Finance Examiner Commissioning Program: \\$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners](#) (COM-2018-006, September 6, 2018)).

**Table II**  
**Summary of OIG Open Recommendations**

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<b>Conservatorship: Delegated Responsibilities</b>			
<b>Development of Common Securitization Platform</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013) <sup>11</sup>
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)
<b>Conflicts of Interest</b>	FHFA should direct FHFA employees to monitor the review and resolution of Senior Executive Officer disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.	Improved oversight	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)

<sup>11</sup> FHFA implemented the Common Securitization Platform in June 2019. The previous FHFA Director reduced the scope of the platform, which changed the fraud risk responsibilities of the platform's management. OIG is reviewing the recommendations for closure, as applicable.



Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<b>Supervision</b>			
<b>Examiner Capacity</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013) and <a href="#">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</a> (AUD-2020-004, February 25, 2020)
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013) and <a href="#">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</a> (AUD-2020-004, February 25, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.	Improved supervision	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017) <sup>12</sup>
	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.	Improved supervision	<a href="#">FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); and <a href="#">FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016) <sup>13</sup>

<sup>12</sup> This recommendation is being held open by OIG pending verification that FHFA has improved its performance in completing its annual examination plans. Audits that issued in 2019 found that FHFA's timely completion of targeted examinations improved but continued to be an issue. See OIG, *FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS* (AUD-2019-012, September 17, 2019) and OIG, *FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue* (AUD-2019-013, September 17, 2019). Based on the results of these audits, OIG plans to periodically follow up on FHFA's actions to improve its timely completion of examinations during the cycle for which they were planned.

<sup>13</sup> See footnote 12.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with OPM guidance and best practices and is fully documented in writing. That process should include:</p> <ul style="list-style-type: none"> <li>• Identifying the current examination skills and competencies of its examiners;</li> <li>• Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs;</li> <li>• Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and</li> <li>• Addressing that gap.</li> </ul>	Improved supervision	<p><a href="#">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</a> (AUD-2020-004, February 25, 2020)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with OPM guidance and best practices and is fully documented. That process should include:</p> <ul style="list-style-type: none"> <li>• Identifying the appropriate number of Enterprise high-risk models to be examined each year through targeted examinations;</li> <li>• Identifying the current examination skills and competencies of examiners engaged in supervisory activities of high-risk models;</li> <li>• Forecasting the optimal staffing levels and competencies of examiners necessary to complete the identified number of targeted examinations of high-risk models planned for each examination cycle;</li> <li>• Evaluating whether a gap exists between skills required to conduct supervision of high-risk models that its examiners currently need but do not possess; and</li> <li>• Addressing that gap.</li> </ul>	Improved supervision	<p><a href="#">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</a> (EVL-2020-001, March 25, 2020)</p>
	<p>Based on the results of its workforce analysis, FHFA should conduct a written assessment of whether DER’s current budget for its supervision of high-risk models is sufficient.</p>	Improved supervision	<p><a href="#">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</a> (EVL-2020-001, March 25, 2020)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<p><b>Accreditation of Examiners</b></p>	<p>FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of Government-Sponsored Enterprise examinations.</p>	<p>Improved quality</p>	<p><a href="#">OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015), and <a href="#">FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</a> (COM-2018-006, September 6, 2018)</p>
<p><b>Risk Assessments for Supervisory Planning</b></p>	<p>FHFA should reinforce, through training and supervision of DER personnel, the requirements established by FHFA, and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ul style="list-style-type: none"> <li>a. Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011)</li> <li>b. Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010)</li> </ul>	<p>Improved supervision</p>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); and <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)<sup>14</sup></p>

<sup>14</sup> See footnote 12

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<b>Communication of Deficiencies to Enterprise Boards</b>	FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.) [Closed in November 2016; reopened upon results of compliance testing.]	Improved supervision	<a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016), and <a href="#">Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors</a> (COM-2018-005, September 5, 2018)
<b>Assessing Remediation of Deficiencies</b>	FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].	Improved remediation of deficiencies	<a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018) <sup>15</sup>

<sup>15</sup> This recommendation is being held open pending the completion of a 2020 FHFA planned supervisory activity related to the underlying deficiency of the MRA that was the subject of this report, and OIG’s assessment of that supervisory activity.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should require DER, upon acceptance of an Enterprise’s remediation plan, to estimate the date by which it expects to confirm internal audit’s validation, and to enter that date into a dedicated field in the MRA tracking system. [Closed in September 2017; reopened upon results of compliance testing.]</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA’s Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016) and <a href="#">Compliance Review of the Timeliness of FHFA’s Assessments of the Enterprises’ Remediation Closure Packages for a Matter Requiring Attention</a> (COM-2020-001, February 21, 2020)</p>
<p><b>Examination Guidance</b></p>	<p>FHFA should establish and implement timelines and processes to ensure timely updates and revisions to DER’s examination manual.</p>	<p>Improved supervision</p>	<p><a href="#">Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance</a> (EVL-2019-003, September 10, 2019)</p>
	<p>FHFA should establish and communicate clear expectations for use of revised and new examination modules by DER examiners.</p>	<p>Improved supervision</p>	<p><a href="#">Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance</a> (EVL-2019-003, September 10, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<b>Effective Cybersecurity Controls Examinations</b>	FHFA should require examiners to document their assessment of the design of the Federal Home Loan Banks' vulnerability scans and penetration tests as part of their assessment of the operational effectiveness of such controls. [Closed in February 2017; reopened upon results of compliance testing.]	Improved examinations	<a href="#">FHFA Should Improve its Examinations of the Effectiveness of the Federal Home Loan Banks' Cyber Risk Management Programs by Including an Assessment of the Design of Critical Internal Controls</a> (AUD-2016-001, February 29, 2016), and <a href="#">Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks</a> (COM-2019-004, May 7, 2019)
<b>Quality Control Reviews</b>	FHFA's Office of Minority and Women Inclusion should ensure that quality control reviews are performed before issuing diversity and inclusion examination findings to a regulated entity, as required by Supervision Directive 2017-01.	Improved quality	<a href="#">Compliance Review of FHFA's Office of Minority and Women Inclusion</a> (COM-2019-005, June 24, 2019)
<b>Counterparties</b>			
<b>Compliance with Advisory Bulletins</b>	In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise's] risk management of nonbank seller/servicers meets FHFA's supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].	Improved risk management	<a href="#">FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a> (EVL-2017-002, December 21, 2016)
<b>Information Technology</b>			
<b>Information Technology Risk Examinations</b>	FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.	Improved risk management	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)



Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST framework in a manner that achieves consistency with other federal financial regulators.	Improved risk management	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)
<b>Privacy Information and Data Protection</b>	The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017) <sup>16</sup>
	FHFA should develop and implement a process to identify and review metrics to measure the effectiveness of privacy activities and compliance with privacy requirements as specified by the Office of Management and Budget.	Improved protection of privacy information	<a href="#">Audit of the Federal Housing Finance Agency's 2019 Privacy Program</a> (AUD-2019-009, August 28, 2019)
	FHFA should determine privacy controls that are information system-specific, and/or hybrid controls.	Improved protection of privacy information	<a href="#">Audit of the Federal Housing Finance Agency's 2019 Privacy Program</a> (AUD-2019-009, August 28, 2019)
	FHFA should document privacy controls within each system's system security plan or system-specific privacy plan, clearly identifying whether controls are program level, common, information system-specific, or hybrid.	Improved protection of privacy information	<a href="#">Audit of the Federal Housing Finance Agency's 2019 Privacy Program</a> (AUD-2019-009, August 28, 2019)
<b>FHFA Information Technology Security and Availability</b>	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)

<sup>16</sup> OIG closed this recommendation in April 2020.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)
Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)
Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)
FHFA should perform tests periodically, and take action as appropriate, to ensure non-FHFA-issued devices cannot connect to the FHFA internal network through [redacted] or similar wireless networks made available to employees for their personal devices.	FHFA should ensure that outdated [redacted] and [redacted] protocols in FHFA's systems are disabled or upgraded in a timely manner in accordance with NIST directives.	Improved information security	<a href="#">2019 Internal Penetration Test of FHFA's Network and Systems</a> (AUD-2019-014, September 24, 2019)
FHFA should restrict user access to [redacted] in accordance with the least privilege principle.	FHFA should restrict user access to [redacted] in accordance with the least privilege principle.	Improved information security	<a href="#">2019 Internal Penetration Test of FHFA's Network and Systems</a> (AUD-2019-014, September 24, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should emphasize through training and enforcement employees' responsibilities to secure sensitive information. FHFA should consider including information in training about the means, such as [redacted], malicious insiders may use to obtain access to sensitive information.</p>	<p>Improved information security</p>	<p><a href="#">2019 Internal Penetration Test of FHFA's Network and Systems</a> (AUD-2019-014, September 24, 2019)</p>
	<p>FHFA should implement controls to prevent users from running unapproved [redacted] on FHFA's systems.</p>	<p>Improved information security</p>	<p><a href="#">2019 Internal Penetration Test of FHFA's Network and Systems</a> (AUD-2019-014, September 24, 2019)</p>
	<p>FHFA should change default administrative passwords for all existing [redacted], and implement a control to ensure that default administrative passwords are changed before such devices are deployed and placed in service.</p>	<p>Improved information security</p>	<p><a href="#">2019 Internal Penetration Test of FHFA's Network and Systems</a> (AUD-2019-014, September 24, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should review, revise, and implement its procedures for disposal of electronic media targeted for destruction, consistent with NIST and Green Book requirements. Those revised procedures should:</p> <ul style="list-style-type: none"> <li>• Prescribe the expectations for sanitization of the targeted electronic media consistent with NIST guidance;</li> <li>• Provide for tracking the targeted electronic media in an inventory system of record;</li> <li>• Provide for regular physical inventory of the targeted electronic media and reconciliation to the control record(s) through destruction; and</li> <li>• Provide for accountability of the targeted electronic media from the time the media is taken out of service through its destruction, with reconciliations of any count differences that may arise as the media is transferred within FHFA, and from FHFA to other parties used to destroy the media.</li> </ul>	Improved information security	<p><a href="#">FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal</a> (AUD-2020-009, March 30, 2020)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should update its [General Support System (GSS) Disaster Recovery Procedures (DRP)] to ensure the procedures include all NIST-required information and is in a ready state. In this regard, the procedures should provide time periods for the [Recovery Time Objective (RTO)] and [Recovery Point Objective (RPO)] for resumption of GSS operation; procedures used to test for the failover and failback of FHFA’s [Voice over Internet Protocol (VoIP)]; lists of equipment needs, vendor names, and emergency contact information; current information on FHFA’s alternate operating facility; and current information on individuals and titles listed under assigned roles and responsibilities.</p>	<p>Improved information technology availability</p>	<p><a href="#">FHFA’s 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information</a> (AUD-2020-005, March 23, 2020)</p>
	<p>FHFA should maintain the GSS DRP in a ready state going forward.</p>	<p>Improved information technology availability</p>	<p><a href="#">FHFA’s 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information</a> (AUD-2020-005, March 23, 2020)</p>
<p><b>Cybersecurity Data Collection and Analysis</b></p>	<p>FHFA should conduct the necessary inquiries and analyses to explain the large disparities in reported cybersecurity events and incidents between the Enterprises, and make use of that information in conjunction with DBR’s and DER’s respective data collection initiatives.</p>	<p>Improved oversight of information security risks at regulated entities</p>	<p><a href="#">FHFA Should Enhance Supervision of its Regulated Entities’ Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data</a> (EVL-2019-004, September 23, 2019)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should evaluate the cybersecurity data it obtains from the regulated entities and revise, as appropriate, the Agency's existing cybersecurity reporting requirements to promote standardization of data, including the use of common definitions.	Improved oversight of information security risks at regulated entities	<a href="#">FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data</a> (EVL-2019-004, September 23, 2019)

Agency Operations			
<b>Oversight of FHFA Workforce Matters</b>	FHFA should develop and implement written procedures for all offboarding activities, to include procedures for the collection and deactivation of access cards for FHFA facilities and the collection and transfer of Enterprise access cards.	Improved opportunities and oversight	<a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a> (AUD-2019-004, March 13, 2019)
	FHFA should ensure that Personal Identity Verification cards are collected, and building access is deactivated, for all separated and departed individuals to whom cards were issued. For unaccounted/lost Personal Identity Verification cards, ensure that building access associated with those cards is promptly deactivated.	Improved opportunities and oversight	<a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a> (AUD-2019-004, March 13, 2019)
	FHFA should implement controls to ensure all departed contractor employees complete applicable offboarding requirements.	Improved opportunities and oversight	<a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a> (AUD-2019-004, March 13, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should reinforce, through training and supervision, that offices with offboarding responsibilities ensure offboarding forms are properly completed.	Improved opportunities and oversight	<a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a> (AUD-2019-004, March 13, 2019)
	FHFA should ensure that offboarding documentation is maintained in accordance with FHFA's retention requirement.	Improved opportunities and oversight	<a href="#">FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017</a> (AUD-2019-004, March 13, 2019)
	FHFA should develop, implement, and circulate to all FHFA employees a written policy to promote compliance with laws and regulations regarding the hiring of relatives of agency employees, including for summer internship positions. That policy ought to clearly explain the scope of the prohibition on advocating or otherwise interceding on behalf of a relative and on preferential treatment in the hiring of a relative of an Agency employee.	Prevent the improper hiring of relatives of Agency employees	<a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)
	FHFA should provide training on the operation of its written policy [on the hiring of relatives], with examples, to educate FHFA employees on the limitations on the hiring of relatives.	Prevent the improper hiring of relatives of Agency employees	<a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should reinforce the written policy on the hiring of relatives in the annual email to FHFA employees about summer internship opportunities.</p>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)</p>
	<p>FHFA should require written certifications from hiring officials and human resources officials regarding the proposed hiring of a relative of an FHFA employee for a summer internship, prior to the extension of an internship offer to a selectee, in which each official certifies, to the best of his or her knowledge:</p> <ul style="list-style-type: none"> <li>a. After reasonable inquiry, there is no evidence that an FHFA employee advocated or otherwise interceded on behalf of a relative for a summer internship position;</li> <li>b. After reasonable inquiry, there is no evidence that the hiring official provided preferential treatment to a relative of an FHFA employee for a summer internship position.</li> </ul>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)</p>
	<p>FHFA should execute Participant Agreements with each Pathways intern in accordance with 5 C.F.R. § 362.106.</p>	<p>Prevent the improper hiring of relatives of Agency employees</p>	<p><a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)</p>



Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.	Prevent the improper hiring of relatives of Agency employees	<a href="#">FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</a> (OIG-2019-004, March 26, 2019)
	FHFA should name an Ombudsman, and ensure that the position is continuously filled going forward.	Improved management of a statutory function	<a href="#">FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures</a> (AUD-2019-011, September 16, 2019)
	FHFA should develop written procedures for carrying out the functions of the Office of the Ombudsman, to include procedures for documenting that all incoming complaints and appeals are tracked, considered, and appropriately resolved. In developing these procedures, the guidance published by the Coalition of Federal Ombudsmen should be taken into consideration.	Improved management of a statutory function	<a href="#">FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures</a> (AUD-2019-011, September 16, 2019)
<b>Management of Agency Resources</b>	FHFA should assess the \$80,985 in costs that we questioned in this report, as well as any additional costs related to disincentives that may have been triggered after our review period. FHFA should take action to recover these costs, as appropriate, and enforce disincentive clauses going forward.	Monetary savings	<a href="#">Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs</a> (OIG-2020-001, March 3, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should reinforce FHFA’s reimbursements and stipends program policies and procedures through a reminder to FHFA staff and supervisors involved in initiating, reviewing, and approving reimbursements and stipends to:</p> <ul style="list-style-type: none"> <li>• Reimburse employees for only eligible job-related expenses with required, supporting documentation,</li> <li>• Calculate travel and EIC stipends correctly, and</li> <li>• Maintain properly executed out-stationed employee agreements.</li> </ul>	Prevent improper payments	<p><a href="#">For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA’s Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed</a> (AUD-2020-007, March 26, 2020)</p>
	<p>FHFA should update [FHFA’s <i>Reimbursements and Stipends Policy</i> (Policy 113)] to align with management’s intent and practice.</p>	Prevent improper payments	<p><a href="#">For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA’s Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed</a> (AUD-2020-007, March 26, 2020)</p>
	<p>FHFA should determine and take appropriate action to address the exceptions cited in this report for which the details were separately provided to FHFA management during the audit, e.g., reimburse employees who were underpaid based on Policy 113, seek reimbursement from employees who were overpaid based on Policy 113, and/or obtain the necessary documentation for reimbursements and stipends that lacked the proper support.</p>	Prevent improper payments	<p><a href="#">For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA’s Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed</a> (AUD-2020-007, March 26, 2020)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
<b>Management of Agency Records</b> <sup>17</sup>	FHFA should ensure its permanent electronic records are located in and retrievable from FHFA’s systems in accordance with division and office file plans.	Improved records management	<a href="#">FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements</a> (AUD-2020-008, March 26, 2020)
	FHFA should direct [its Records and Information Management section (RIM)] to work with divisions and offices to review and update their respective file plans. That process should include ensuring the file plans include the location of all records, are complete, and link to NARA-approved records schedules.	Improved records management	<a href="#">FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements</a> (AUD-2020-008, March 26, 2020)
	FHFA should include all NARA-required content topics in annual records management training provided to FHFA employees and contractor employees.	Improved records management	<a href="#">FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements</a> (AUD-2020-008, March 26, 2020)

<sup>17</sup> In *FHFA’s Procurement Awards during the Period January 2017 to September 2019 Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed* (AUD-2020-006), OIG recommended that FHFA ensure that peer reviews of procurement contract files are performed in compliance with requirements defined in its Acquisition Procedures Manual and related FHFA supplementary guidance. The Agency agreed and took corrective action, so that recommendation was closed during this reporting period.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should develop and implement procedures to ensure:</p> <ul style="list-style-type: none"> <li>a. FHFA employees and contractor employees complete required annual records management training;</li> <li>b. Contractor employees complete required records management training at the time of onboarding; and</li> <li>c. FHFA senior officials (political appointees, senior agency officials, and senior executives) complete required targeted records management training at the time of offboarding.</li> </ul>	Improved records management	<p><a href="#">FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements</a> (AUD-2020-008, March 26, 2020)</p>

**Table III**  
**Summary of Closed, Unimplemented Recommendations**

<b>Specific Risk to be Mitigated</b>	<b>Closed, Unimplemented Recommendation</b>	<b>Expected Impact</b>	<b>Report Name and Date</b>
<b>Property Inspection Quality Controls</b>	FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	Improved quality	<a href="#">FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</a> (AUD-2014-012, March 25, 2014)
<b>Improperly Reimbursed Property Inspection Claims</b>	FHFA should direct Fannie Mae to obtain a refund from servicers for improperly reimbursed property inspection claims, resulting in estimated funds put to better use of \$5,015,505.	Improved accuracy	<a href="#">FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</a> (AUD-2014-005, January 15, 2014)
<b>Seller/Servicer Resolution of Aged Repurchase Demands</b>	FHFA should promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit.	Improved oversight	<a href="#">FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</a> (AUD-2014-009, February 12, 2014)
<b>Oversight of Enterprise Implementation of Representation and Warranty Framework</b>	FHFA should perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency's objectives.	Improved framework management	<a href="#">FHFA's Representation and Warranty Framework</a> (AUD-2014-016, September 17, 2014)
<b>Seller/Servicer Compliance with Guidance</b>	FHFA should direct Fannie Mae and Freddie Mac to assess the cost/benefit of a risk-based approach to requiring their sellers and servicers to provide independent, third-party attestation reports on compliance with Enterprise origination and servicing guidance.	Improved compliance	<a href="#">FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</a> (AUD-2014-018, September 26, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<b>Collection of Funds from Servicers</b>	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	Improved transparency	<a href="#">Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)
<b>Examination Recordkeeping Practices</b>	DER should adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between the two Core Teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.	Improved efficiency	<a href="#">Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities</a> (EVL-2015-001, October 6, 2014)
<b>Oversight of Enterprise Executive Compensation</b>	FHFA should develop a strategy to enhance the Executive Compensation Branch's capacity to review the reasonableness and justification of the Enterprises' annual proposals to compensate their executives based on Corporate Scorecard performance. To this end, FHFA should ensure that: the Enterprises submit proposals containing information sufficient to facilitate a comprehensive review by the Executive Compensation Branch; the Executive Compensation Branch tests and verifies the information in the Enterprises' proposals, perhaps on a randomized basis; and the Executive Compensation Branch follows up with the Enterprises to resolve any proposals that do not appear to be reasonable and justified.	Improved oversight	<a href="#">Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a> (COM-2016-002, March 17, 2016)
	FHFA should develop a policy under which it is required to notify OIG within 10 days of its decision not to fully implement, substantially alter, or abandon a corrective action that served as the basis for OIG's decision to close a recommendation.	Improved oversight	<a href="#">Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</a> (COM-2016-002, March 17, 2016)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae’s continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the CEO and President positions, with annual compensation capped at \$600,000 since 2015.</p>	<p>Improved governance</p>	<p><a href="#">FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a> (EVL-2019-001, March 26, 2019)</p>
	<p>FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac’s continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the CEO responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA’s representation that Candidate A will leave Freddie Mac if he is not selected for the CEO position.</p>	<p>Improved governance</p>	<p><a href="#">FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation</a> (EVL-2019-001, March 26, 2019)</p>
<p><b>Oversight of Servicing Alignment Initiative</b></p>	<p>FHFA’s Division of Housing Mission and Goals Deputy Director should establish an ongoing process to evaluate servicers’ Servicing Alignment Initiative compliance and the effectiveness of the Enterprises’ remediation efforts.</p>	<p>Improved servicing compliance and minimized losses</p>	<p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<p>FHFA’s Division of Housing Mission and Goals Deputy Director should direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals’ assessment.</p>	<p>Improved servicing compliance and minimized losses</p>	<p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p>
	<p>FHFA’s Division of Housing Mission and Goals Deputy Director should regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers’ actual versus expected performance.</p>	<p>Improved servicing compliance and minimized losses</p>	<p><a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)</p>
<p><b>Oversight of Enterprise Remediation of Deficiencies</b></p>	<p>FHFA should review FHFA’s existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and other federal financial regulators including, but not limited to, content of an MRA; standards for proposed remediation plans; approval authority for proposed remediation plans; real-time assessments at regular intervals of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; final assessment of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; and required documentation for examiner oversight of MRA remediation.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p>
	<p>Based on the results of the review in recommendation 1, FHFA should assess whether any of the existing requirements, guidance, and processes adopted by FHFA should be enhanced, and make such enhancements.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p>



Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<p><b>Communication of Deficiencies to Enterprise Boards</b></p>	<p>FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each plan submitted by Enterprise management to remediate an MRA with associated timetables and the response by DER.</p>	<p>Improved Board oversight</p>	<p><a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016)</p>
	<p>FHFA should direct DER to develop detailed guidance and promulgate that guidance to each Enterprise’s board of directors that explains:</p> <ul style="list-style-type: none"> <li>• The purpose for DER’s annual presentation to each Enterprise board of directors on the [Report of Examination (ROE)] results, conclusions, and supervisory concerns and the opportunity for directors to ask questions and discuss ROE examination conclusions and supervisory concerns at that presentation; and</li> <li>• The requirement that each Enterprise board of directors submit a written response to the annual ROE to DER and the expected level of detail regarding ongoing and contemplated remediation in that written response.</li> </ul>	<p>Improved Board oversight</p>	<p><a href="#">FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</a> (EVL-2016-009, July 14, 2016)</p>
	<p>FHFA should direct the Enterprises’ boards to amend their charters to require review by each director of each annual ROE and review and approval of the written response to DER in response to each annual ROE.</p>	<p>Improved Board oversight</p>	<p><a href="#">FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</a> (EVL-2016-009, July 14, 2016)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<b>Assessing Remediation of Deficiencies</b>	FHFA should ensure that the underlying remediation documents, including the Procedures Document, are readily available by direct link or other means, through DER’s MRA tracking system(s).	Improved remediation of deficiencies	<a href="#">FHFA’s Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA’s Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)
	FHFA should require DER to track interim milestones and to independently assess and document the timeliness and adequacy of Enterprise remediation of MRAs on a regular basis.	Improved remediation of deficiencies	<a href="#">FHFA’s Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA’s Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)
	FHFA should require the Enterprises to provide, in their remediation plans, the target date in which their internal audit departments expect to validate management’s remediation of MRAs, and require examiners to enter that date into a dedicated field in the MRA tracking system.	Improved remediation of deficiencies	<a href="#">FHFA’s Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA’s Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)
	FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.	Improved remediation of deficiencies	<a href="#">FHFA Requires the Enterprises’ Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners’ Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	FHFA should direct that examiners can use Internal Audit work to assess the adequacy of MRA remediation only if FHFA has concluded that the Internal Audit function is effective overall.	Improved remediation of deficiencies	<a href="#">FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)
<b>Identification of Deficiencies and Their Root Causes</b>	FHFA should direct DER to revise its guidance to require ROEs to focus the boards' attention of the most critical and time-sensitive supervisory concerns through (1) the prioritization of examination findings and conclusions and (2) identification of deficiencies and MRAs in the ROE and discussion of their root causes.	Improved Board oversight	<a href="#">FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns</a> (EVL-2016-008, July 14, 2016)
<b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>	FHFA should ensure that it has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the build out plans and associated budget(s), as Fannie Mae continues to revise and refine them.	Improved oversight	<a href="#">Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project</a> (COM-2016-004, June 16, 2016)
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to the Division of Conservatorship for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	Improved oversight	<a href="#">Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project</a> (COM-2016-004, June 16, 2016)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Fannie Mae Northern Virginia Consolidation and Relocation</b>	To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties.	Reduced waste	<a href="#">Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)
	To reduce the waste from Option C, FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.	Reduced waste	<a href="#">Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)
<b>Conflicts of Interest</b>	Take appropriate action to address conflicts of interest issue involving an entity within FHFA's oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).	Improved oversight	<a href="#">Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</a> (OIG-2017-004, March 23, 2017)
	Take appropriate action to address conflicts of interest issue involving an entity within FHFA's oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).	Improved oversight	<a href="#">Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</a> (OIG-2017-004, March 23, 2017)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
<b>Management of Agency Resources</b>	FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.	Improved compliance	<a href="#">Audit of FHFA’s Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</a> (AUD-2018-011, September 6, 2018)
<b>Privacy Information and Data Protection</b>	FHFA should determine the feasibility for automatically disabling inactive application accounts Correspondence Tracking System and Merit Central/ Job Performance Plan at a frequency that fits the business needs and update applicable system policies and procedures, as necessary.	Improved protection of privacy information	<a href="#">Audit of the Federal Housing Finance Agency’s 2019 Privacy Program</a> (AUD-2019-009, August 28, 2019)
	FHFA should implement a control at the application layer to ensure inactive application accounts for Correspondence Tracking System and Merit Central/ Job Performance Plan are disabled in accordance with the determined system frequency. If the application does not accommodate automatic disabling of inactive accounts, then consider implementing manual compensating controls (i.e., manually reviewing and disabling dormant accounts) to help mitigate the risk.	Improved protection of privacy information	<a href="#">Audit of the Federal Housing Finance Agency’s 2019 Privacy Program</a> (AUD-2019-009, August 28, 2019)
<b>FHFA Information Technology Security</b>	Because information in this report could be used to circumvent FHFA’s internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency’s Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)
	Because information in this report could be used to circumvent FHFA’s internal controls, it has not been released publicly.	Improved information security	<a href="#">Audit of the Federal Housing Finance Agency’s Information Security Program Fiscal Year 2019</a> (AUD-2020-001, October 25, 2019)

## Appendix C: OI Publicly Reportable Investigative Outcomes Involving Condo Conversion and Builder Bailout Schemes

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure, causing the lenders to suffer large losses. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

<b>Guilty Pleas in Condominium Conversion/Builder Bailout Scheme, Illinois</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Oksana Chura	Real Estate Agent/Loan Officer	Charged by superseding information and pled guilty to false statements to HUD.	March 3, 2020
Igor Krivoruchko	Real Estate Developer	Pled guilty to bank fraud.	November 22, 2019
Kimberly Dierking	Closer	Pled guilty to bank fraud.	November 21, 2019

<b>Real Estate Developer Sentenced for Bank Fraud, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Marek Harrison	Real Estate Developer	Sentenced to 20 months in prison, 2 years of supervised release, and ordered to pay \$2,753,495 in restitution, joint and several.	February 18, 2020

<b>Real Estate Developer and Mortgage Broker Plead Guilty, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Mordechai Boaziz	Licensed Real Estate Agent/Developer	Pled guilty to conspiracy to make false statements to a financial institution.	November 21, 2019
Jonathan Marmol	Licensed Mortgage Broker	Pled guilty to conspiracy to make false statements to a financial institution.	November 20, 2019

## Appendix D: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Sentencing of Loan Officer in Origination Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
James Lee	Loan Officer	Pled no contest to grand theft, identity theft, and mortgage fraud and sentenced to 90 days in jail, 5 years of probation, and ordered to pay \$302,213 in restitution.	March 20, 2020

Guilty Plea of Loan Originator, Illinois			
Defendant	Role	Most Recent Action	Date
Ryan Bailey	Licensed Loan Originator	Pled guilty to bank fraud.	January 29, 2020

Two Charged by Superseding Indictment for Targeting Elderly on Reverse Mortgage Loan Origination Fraud, New Jersey			
Defendant	Role	Most Recent Action	Date
Philip Puccio, Jr.	Loan Officer/Business Owner	Charged by superseding indictment with conspiracy to commit bank fraud and bank fraud.	January 10, 2020
Rafael Peralta	Business Owner	Charged by superseding indictment with conspiracy to commit bank fraud and bank fraud.	January 10, 2020

### Sentencing of Straw Buyer in Origination Fraud Scheme, New York

Defendant	Role	Most Recent Action	Date
Barthelemy Adjavehoude	Straw Buyer	Sentenced to 12 months and one day in prison and 3 years of supervised release.	December 13, 2019

### Real Estate Investor Pleads Guilty in Loan Origination Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Arsenio Santos	Real Estate Developer	Pled guilty to conspiracy to commit bank fraud.	December 5, 2019

### Two Indicted in Origination Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Shonda Coleman	Participant	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	November 5, 2019
Robert Goodrich	Participant	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	November 5, 2019



## Appendix E: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

<b>Sentencings of Licensed Real Estate Professionals in Short Sale Fraud Scheme, Arizona</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Ryan Robson	Licensed Real Estate Professional	Charged and pled guilty to a state felony complaint with secure proceeds of offense and sentenced to unsupervised probation and ordered to pay \$114,351 in restitution, joint and several.	March 6, 2020
Darcy Myers	Licensed Real Estate Professional	Charged and pled guilty to a state felony complaint with secure proceeds of offense and sentenced to unsupervised probation and ordered to pay \$114,351 in restitution, joint and several.	March 5, 2020

<b>Sentencing and Charge of Mortgage Short Sale Negotiators in Scheme to Defraud Mortgage Lenders, Massachusetts</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Jaime Mulvihill	Business Owner	Sentenced to 6 months in prison, 2 years of supervised release, and ordered to pay \$478,458 in restitution, joint and several, and \$239,229 in forfeiture.	February 25, 2020
Gabriel Tavarez	Real Estate Agent/ Business Owner	Charged by information with conspiracy to commit wire fraud and aggravated identity theft.	November 8, 2019

### Guilty Plea of Real Estate Agent and Three Indicted in Short Sale Fraud Conspiracy Scheme, Florida

Defendant	Role	Most Recent Action	Date
Katrina Rice	Real Estate Agent	Pled guilty to conspiracy to make a false statement to a financial institution.	February 14, 2020
Linda Cagwin	Title Agent	Charged by indictment with conspiracy and false statements to a financial institution.	November 14, 2019
Thomas Kepler	Investor	Charged by indictment with conspiracy and false statements to a financial institution.	November 14, 2019
Marianne Keim	Recruiter	Charged by indictment with conspiracy and false statements to a financial institution.	November 14, 2019

### Business Owners Sentenced in Short Sale Fraud Scheme, North Carolina

Defendant	Role	Most Recent Action	Date
Starr Ilzhoefner	Business Owner	Sentenced to 6 months of home confinement, 2 years of probation, and ordered to pay \$90,146 in restitution, joint and several.	November 20, 2019
Aaron Guido	Business Owner	Sentenced to 6 months of home confinement, 2 years of probation, and ordered to pay \$90,146 in restitution, joint and several.	November 20, 2019

### Guilty Plea of Licensed Real Estate Agent in Short Sale Scheme, Florida

Defendant	Role	Most Recent Action	Date
Juliette Leeseman	Licensed Real Estate Agent	Pled guilty to false statements to a federally insured financial institution.	November 9, 2019

## Sentencings in Short Sale Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Nani Isaac	Participant	Sentenced to 1 day in prison and 24 months of probation.	November 4, 2019
Martin Bahrami	Participant	Sentenced to 1 day in prison, 2 years of supervised release, and ordered to forfeit real property with a tax value of \$263,230.	October 15, 2019

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# Appendix F: OI Publicly Reportable Investigative Outcomes Involving Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant upfront fees or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below is the name of a defendant in a scheme from this period, her role, the most recent action in the case and the date of the action.

Sentencing in Scheme Targeting Homeowners Facing Foreclosure, Kansas			
Defendant	Role	Most Recent Action	Date
Ruby Price	Business Owner	Sentenced to 1 year and 1 day in prison, 3 years of supervised release, and ordered to pay \$1,313,508 in restitution, joint and several.	October 30, 2019

## Appendix G: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes

The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

<b>Couple and Co-Conspirator Sentenced for REO Bid-Rigging Scheme, Massachusetts</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Talal Soffan	Business Owner	Sentenced to 30 months in prison and 5 years of supervised release.	January 31, 2020
Joanne Murray	Real Estate Professional	Sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$191,094 in restitution, joint and several.	January 30, 2020
James Murray	Business Owner	Sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$191,094 in restitution, joint and several.	January 30, 2020

<b>Couple Sentenced for Long-Running Real Estate Fraud Scheme, Minnesota</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Jeffrey Detloff	Owner	Sentenced to 16 months in prison, 2 years of supervised release, and ordered to pay \$291,505 in restitution, joint and several.	January 21, 2020
Lori Detloff	Accountant	Sentenced to 7 months in prison, 1 year of supervised release, and ordered to pay \$291,505 in restitution, joint and several.	January 21, 2020
Detloff Marketing & Asset Management	Company	Ordered to pay a criminal fine of \$593,000.	January 21, 2020

### Ex-Fannie Mae Sales Representative Sentenced to Over 6 Years in Prison for Bribery Scheme with Millions of Dollars in Corrupt Commissions and Sales, California

Defendant	Role	Most Recent Action	Date
Shirene Hernandez	Fannie Mae Sales Representative	Sentenced to 76 months in prison, 3 years of supervised release, and ordered to pay \$982,516 in restitution and forfeiture of real property valued at approximately \$1.1 million.	January 14, 2020

### One Charged in Forged Deed Fraud Scheme of REO GSE Property, Washington

Defendant	Role	Most Recent Action	Date
OC Thompson	Participant	Charged by information with forgery and attempted theft in the first degree.	October 24, 2019

### Subjects Charged in REO Deed Fraud Scheme, Nevada

Defendant	Role	Most Recent Action	Date
Ernest Aldridge	Participant	Charged by second amended criminal complaint with false representation concerning title, false entry in public record, forgery of conveyances, theft, attempted theft, multiple transactions involving fraud or deceit, and burglary.	October 9, 2019
Clarence Willis	Participant	Charged by second amended criminal complaint with false representation concerning title, false entry in public record, forgery of conveyances, theft, obtaining and using personal identifying information of another person, and multiple transactions involving fraud or deceit.	October 9, 2019

## Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Sentencing and Two Charged in Foreclosure-Delay, Bankruptcy Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
Tanya Tarver	Participant	Pled guilty to conspiracy, grand theft, identity theft, and filing a false or fraudulent document with a government agency and sentenced to 6 years in prison.	March 24, 2020
Ricardo Carmona	Participant	Charged by state felony complaint with conspiracy to commit procuring or offering a false or forged instrument for recording, conspiracy to commit grand theft, procuring or offering a false or forged instrument, grand theft of real property, and identity theft.	December 9, 2019
Nana Baidoobonsoiam	Participant	Charged by state felony complaint with conspiracy to commit procuring or offering a false or forged instrument for recording, conspiracy to commit grand theft, procuring or offering a false or forged instrument, grand theft of real property, and identity theft.	December 9, 2019

### Trial Conviction of Real Estate Agent and Sentencing of Financial Planner, Florida

Defendant	Role	Most Recent Action	Date
Hedley John	Financial Planner	Sentenced to 2 years of probation and later ordered to pay \$34,895 in restitution, joint and several	February 3, 2020 & March 20, 2020
Tanya Firmani	Real Estate Agent	Convicted at trial on charges of conspiracy to commit bankruptcy fraud and bankruptcy fraud.	January 30, 2020

### Foreclosure Rescue Scheme Operator Sentenced to 12 Years in Prison, Wisconsin

Defendant	Role	Most Recent Action	Date
Aston Wood	Participant	Sentenced to 12 years of prison and 6 years of supervised release.	March 17, 2020

### Sentencing in Fraudulent Lien and Deed Scheme, California

Defendant	Role	Most Recent Action	Date
James Rojas	Participant	Sentenced to 164 months in prison and ordered to pay \$944,450 in restitution and a fine of \$502,700.	March 4, 2020

### Orders of Restitution and Forfeiture and Sentencings in Real Estate Fraud Scheme Targeting Distressed Homeowners, California

Defendant	Role	Most Recent Action	Date
Michael Henschel	Participant	Ordered to pay \$7,840,000 forfeiture of real property and \$3,974,525 in restitution.	February 21, 2020
Eugene Fulmer	Participant	Sentenced to 24 months in prison and 3 years of supervised release.	December 2, 2019
Lidia Alvarez	Participant	Sentenced to 12 months in prison, 12 months of supervised release, and ordered to pay a \$10,000 fine.	October 7, 2019



### Sentencing in Bankruptcy Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Christopher Coburn	Business Owner	Sentenced to 3 years of probation and ordered to pay \$31,644 in restitution.	December 9, 2019

### Attorney Sentenced in Foreclosure Rescue Scheme, Texas

Defendant	Role	Most Recent Action	Date
Gagandeep Seth	Attorney	Sentenced to 12 months of probation and ordered to pay \$98,990 in restitution.	November 22, 2019

# Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities. Below is the name of a defendant in the scheme, his role, the most recent action in the case, and the date of the action.

Business Owner Charged in Multifamily Loan Fraud, Oklahoma			
Defendant	Role	Most Recent Action	Date
Kapal Sharma	Business Owner	Charged by indictment with bank fraud, wire fraud, and false statements to a bank.	August 20, 2019 (unsealed November 5, 2019)

## Appendix J: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

<b>Former Bank CEO Charged with Wire Fraud, Minnesota</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Peter Dahl	Former Chief Executive Officer	Charged by information with wire fraud and false income tax return	March 5, 2020

<b>One Sentenced and Five Charged by Superseding Indictment in Bank Fraud Scheme, Florida</b>			
<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Torre Worthy	Participant	Sentenced to 60 months in prison, 5 years of supervised release, and ordered to pay \$16,800.	March 12, 2020
Tana Gyenis	Participant	Charged by superseding indictment with bank fraud and aggravated identity theft.	November 7, 2019
Eduardo Avila	Participant	Charged by superseding indictment with bank fraud and aggravated identity theft.	November 7, 2019
Gregory Caliz	Participant	Charged by superseding indictment with bank fraud and aggravated identity theft.	November 7, 2019
Michael De Jesus	Participant	Charged by superseding indictment with bank fraud and aggravated identity theft.	November 7, 2019
Carlos Martinez	Participant	Charged by superseding indictment with bank fraud and aggravated identity theft.	November 7, 2019

### **Guilty Pleas in \$9 Million ‘Shotgun’ Loan Scheme, New Jersey**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Yorce Yotagri	Participant	Pled guilty to conspiracy to commit bank fraud.	February 21, 2020
Saoud Rihan	Participant	Pled guilty to conspiracy to commit bank fraud.	December 17, 2019

### **Former President of Cecil Bank Indicted for a Bank Fraud Conspiracy, Receiving a Bribe, and Making False Statements in Bank Records and to Bank Examiners, Maryland**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Mary Halsey	Former President and Chief Executive Officer	Charged by indictment with conspiracy to commit bank fraud, bank fraud, receipt of a bribe by a bank official, false statements in bank records, and false statements to a bank examiner.	February 13, 2020

### **Siblings Charged by Superseding Indictment in Bankruptcy Estate Fraud Scheme, Illinois**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Robert Kowalski	Attorney/Business Owner	Charged by superseding indictment with bankruptcy fraud and tax fraud.	February 6, 2020
Jan Kowalski	Attorney	Charged by superseding indictment with bankruptcy fraud and tax fraud.	February 6, 2020

### Sentencings in Bank Loan Scheme, North Carolina

Defendant	Role	Most Recent Action	Date
Kimberlie Flemings	Participant	Sentenced to 57 months in prison, 2 years of supervised release, and ordered to pay \$600,432 in restitution, joint and several.	January 30, 2020
Stanley Barron	Participant	Sentenced to 18 months in prison, 2 years of supervised release, and ordered to pay \$1,418,272 in restitution, joint and several.	November 20, 2019

### Multiple Sentencings in \$396 Million Ponzi Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Amanda Merrill	Participant	Sentenced to 6 consecutive weekends in jail, 6 months of home confinement, and 3 years of probation.	January 24, 2020
Cameron Jezierski	Participant	Sentenced to 24 months in prison, 2 years of supervised release, 1 year of home confinement (concurrent with supervised release), ordered to pay \$116,435 in forfeiture, and ordered to pay \$45,093,384 in restitution, joint and several.	November 14, 2019
Jay Ledford	Certified Public Accountant	Sentenced to 14 years in prison and 3 years of supervised release and ordered to pay \$189,166,116 in restitution, joint and several.	October 29, 2019
Kevin Merrill	Participant	Sentenced to 22 years in prison and 3 years of supervised release and ordered to pay \$189,166,116 in restitution, joint and several.	October 10, 2019

### Former Chief Lending Officer Admits Making False Statements to Secure Federal Guarantees on Loans, New Jersey

Defendant	Role	Most Recent Action	Date
James Bortolotti	Former Chief Lending Officer	Pled guilty to knowingly making false statements for the purpose of influencing the action of the SBA.	January 8, 2020

### Federal Home Loan Bank Executives Sentenced, Texas

Defendant	Role	Most Recent Action	Date
Nancy Parker	Former Chief Information Officer	Sentenced to 60 months in prison, 2 years of supervised release, and ordered to pay \$313,681 in restitution, joint and several, and \$227,953 in attorney fees to the bank and insurance carriers.	December 12, 2019
Terence Smith	Former President	Sentenced to 60 months in prison, 2 years of supervised release, and ordered to pay \$621,368 in restitution, joint and several, and \$4,219,720 in attorney fees.	December 9, 2019
Michael Sims	Former Chief Financial Officer	Sentenced to five years of probation and ordered to pay \$80,484 in restitution.	November 26, 2019

### Former Bank Executive Pled Guilty in Embezzlement Fraud Scheme, Tennessee

Defendant	Role	Most Recent Action	Date
Connie Clabo	Vice President of Loan Operations	Pled guilty to theft, embezzlement, and willful misapplication of moneys, funds, and credits of a bank that deposits of which are insured by the FDIC and willfully filing a false federal income tax return.	November 26, 2019

### Guilty Plea in Counterfeit Title Policy Scheme, North Carolina

Defendant	Role	Most Recent Action	Date
Ginger Cunningham	Title Company Owner	Pled guilty to wire fraud.	October 28, 2019

# Appendix K: Glossary and Acronyms

## Glossary of Terms

**Bankruptcy:** A legal procedure for resolving debt problems of individuals and businesses; specifically, a case filed under one of the chapters of Title 11 of the U.S. Code.

**Conservatorship:** A legal procedure for the management of financial institutions for an interim period during which the institution’s conservator assumes responsibility for operating the institution and conserving its assets. Under the Housing and Economic Recovery Act of 2008, the Enterprises were placed into conservatorships overseen by FHFA. As conservator, FHFA has undertaken to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. FHFA also has assumed the powers of the boards of directors, officers, and shareholders; however, the day-to-day operational decision-making of each company is delegated by FHFA to the Enterprises’ existing management.

**Default:** Occurs when a mortgagor misses one or more payments.

**Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end “too big to fail,” to protect the American taxpayer by ending bailouts, and to protect consumers from abusive financial services practices.

**Fannie Mae:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Fannie Mae supplies funds to lenders so they may make loans to home buyers.

**Federal Home Loan Bank System:** The FHLBanks are 11 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or “advances”) to their member banks but do not lend directly to individual borrowers.

**Fiscal Year 2020:** OIG’s FY 2020 covers October 1, 2019, through September 30, 2020.

**Foreclosure:** A legal process used by a lender to obtain possession of a mortgaged property in order to repay part or all of the debt.

**Freddie Mac:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

**Government-Sponsored Enterprises:** Business organizations chartered and sponsored by the federal government. The GSEs regulated by FHFA also are referred to as regulated entities.

**Guarantee:** A pledge to investors that the guarantor will bear the default risk on a pool of loans or other collateral.

**Housing and Economic Recovery Act of 2008:** Legislation that established FHFA and OIG. HERA also expanded Treasury’s authority to provide financial support to the regulated entities and enhanced FHFA’s authority to act as conservator or receiver.

**Inspector General Act of 1978:** Legislation that authorized establishment of offices of inspectors general, “independent and objective units” within federal agencies, that: (1) conduct and supervise audits and investigations relating to the programs and operations of their agencies; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of agency programs and to prevent and detect fraud, waste, or abuse in such programs and operations; and (3) provide a means for keeping the head of the agency and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

**Inspector General Reform Act of 2008:** Legislation that amended the Inspector General Act to enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

**Internal Control:** A process effected by an entity’s oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) operations—effectiveness and efficiency of operations; (2) reporting—reliability of reporting for internal and external use; and (3) compliance—compliance with applicable laws and regulations. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of resources.

**Mortgage-Backed Securities:** Debt securities that represent interests in the cash flows—anticipated principal and interest payments—from pools of mortgage loans, most commonly on residential property.

**Real Estate Owned:** Foreclosed homes owned by government agencies or financial institutions, such as the Enterprises or real estate investors. REO homes represent collateral seized to satisfy unpaid mortgage loans. The investor or its representative must then sell the property on its own.



**Securitization:** A process whereby a financial institution assembles pools of income-producing assets (such as loans) and then sells securities representing an interest in the assets' cash flows to investors.

**Senior Preferred Stock Purchase Agreements:** Entered into at the time the conservatorships were created, the PSPAs authorize the Enterprises to request and obtain funds from Treasury, among other matters. Under the PSPAs, the Enterprises agreed to consult with Treasury concerning a variety of significant business activities, capital stock issuance, dividend payments, ending the conservatorships, transferring assets, and awarding executive compensation.

**Short Sale:** The sale of a mortgaged property for less than what is owed on the mortgage.

**Straw Buyer:** A person whose credit profile is used to serve as a cover in a loan transaction. Straw buyers are chosen for their ability to qualify for a mortgage loan, causing loans that would ordinarily be declined to be approved. Straw buyers are often paid a fee for their involvement in purchasing a property and usually do not intend to own or occupy the property.

**Underwater:** Term used to describe situations in which the homeowner's equity is below zero (i.e., the home is worth less than the balance of the loan[s] it secures).

**Underwriting:** The process of analyzing a loan application to determine the amount of risk involved in making the loan. It includes a review of the potential borrower's credit worthiness and an assessment of the property value.

**Upfront Fees:** One-time payments made by lenders when a loan is acquired by an Enterprise. Fannie Mae refers to upfront fees as "loan level pricing adjustments" and Freddie Mac refers to them as "delivery fees."

## Acronyms and Abbreviations

<b>Agency</b>	Federal Housing Finance Agency
<b>ARM</b>	Adjustable-Rate Mortgage
<b>Blue Book</b>	<i>Quality Standards for Inspection and Evaluation</i>
<b>CEO</b>	Chief Executive Officer
<b>CIGFO</b>	Council of Inspectors General on Financial Oversight
<b>CIGIE</b>	Council of the Inspectors General on Integrity and Efficiency
<b>CISA</b>	Cybersecurity Information Sharing Act
<b>CIU</b>	Cyber Investigation Unit
<b>DBR</b>	Division of Federal Home Loan Bank Regulation
<b>DER</b>	Division of Enterprise Regulation
<b>DOJ</b>	Department of Justice
<b>DOR</b>	Division of Resolutions (Formerly Division of Conservatorship (DOC))
<b>Enterprises</b>	Fannie Mae and Freddie Mac
<b>FAR</b>	Federal Acquisition Regulation
<b>FBI</b>	Federal Bureau of Investigation
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FHFA</b>	Federal Housing Finance Agency
<b>FHLBank</b>	Federal Home Loan Bank
<b>FinCEN</b>	Financial Crimes Enforcement Network
<b>FIRREA</b>	Financial Institutions Reform, Recovery and Enforcement Act of 1989
<b>FISMA</b>	Federal Information Security Modernization Act of 2014
<b>FSOC</b>	Financial Stability Oversight Council

<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>GSE</b>	Government-Sponsored Enterprise
<b>GSS</b>	General Support System
<b>HERA</b>	Housing and Economic Recovery Act of 2008
<b>HUD-OIG</b>	Department of Housing and Urban Development Office of Inspector General
<b>IG</b>	Inspector General
<b>IPIA</b>	Improper Payments Information Act of 2002
<b>IRS-CI</b>	Internal Revenue Service-Criminal Investigation
<b>LIBOR</b>	London Interbank Offered Rate
<b>MRA</b>	Matter Requiring Attention
<b>NARA</b>	National Archives and Records Administration
<b>NIST</b>	National Institute of Standards and Technology
<b>NPL</b>	Non-Performing Loan
<b>OA</b>	Office of Audits
<b>OCom</b>	Office of Compliance and Special Projects
<b>OE</b>	Office of Evaluations
<b>OI</b>	Office of Investigations
<b>OIG</b>	Federal Housing Finance Agency Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>ORA</b>	Office of Risk Analysis
<b>PII</b>	Personally Identifiable Information
<b>PSPA</b>	Senior Preferred Stock Purchase Agreement

<b>REO</b>	Real Estate Owned
<b>ROE</b>	Report of Examination
<b>RMBS</b>	Residential Mortgage-Backed Securities
<b>SA</b>	Special Agent
<b>SARs</b>	Suspicious Activity Reports
<b>SEC</b>	U.S. Securities and Exchange Commission
<b>SGE</b>	Senior Government Employee
<b>TCRs</b>	Tips, Complaints, or Referrals
<b>Treasury</b>	U.S. Department of the Treasury
<b>UMBS</b>	Uniform Mortgage-Backed Security



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2019, through March 31, 2020

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