

Federal Housing Finance Agency  
Office of Inspector General



# **FHFA's Recent Changes to its Housing Finance Examiner Commission Program**



OIG-2022-002

December 15,  
2021

## Executive Summary

In 2013, consistent with an OIG recommendation, FHFA inaugurated its Housing Finance Examiner (HFE) Commission Program (HFE Program or Program). The Agency required every examiner hired after July 17, 2013, who did not hold a commission from another financial regulator to graduate from the Program and obtain an HFE commission within about four years.

We have evaluated the efficiency and effectiveness of the Program on four occasions, most recently in 2018. On each occasion, we determined that the Program was not on track to achieve its primary objective of producing commissioned examiners within about four years.

Subsequent to our 2018 report, FHFA engaged in a “streamlining and tailoring” initiative, one goal of which was to eliminate impediments to examiners’ progress in completing the Program, thereby improving its productivity. In 2019, FHFA launched its revised Program, from which it had eliminated two features of the previous HFE Commission Program. First, the Agency no longer requires enrollees to obtain their commissions within about four years. Second, the Agency no longer requires managers to measure their examiners’ progress (or lack thereof) through the Program as a separate element in their annual performance evaluations to which compensation is tied.

There are no contemporaneous records from the streamlining initiative that explain how eliminating these two requirements will assist examiners in completing the Program and obtaining commissions in about four years, thereby improving the Program’s productivity. Reasons advanced subsequently by several Agency officials did not serve to clarify the matter.

Two years after these revisions to the HFE Program, it is not apparent to us how they will place the Program on track to produce additional commissioned examiners within about four years.

Despite the Agency’s acknowledged continued need for commissioned examiners to fill leadership roles in its examinations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, only 16 individuals have completed the Program since its inception in 2013. Moreover, examiners move through the Program slowly, if at all—as of June 30, 2021, 11 of the 63 examiners in the Program have been enrolled since its inception in 2013. In that time, FHFA has experienced a net decrease in the size of its commissioned examiner corps—down 4 from 59 to 55. And roughly 90% of the FHFA Division of Enterprise Regulation’s (DER’s) targeted examinations in 2019 and 2020 were led by non-commissioned examiners.



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Accordingly, we will hold open our 2015 recommendation, i.e., that FHFA should determine the causes of the shortfalls in the Program that we have identified and implement a strategy to ensure the Program fulfills its central objective of producing additional commissioned examiners who are qualified to lead major risk sections of examinations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (collectively, the government-sponsored enterprises or GSEs).

This report was prepared by Alisa Davis, Senior Policy Advisor, with assistance from David M. Frost, Assistant Inspector General, Compliance. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaoig.gov](http://www.fhfaoig.gov).

Richard Parker  
Senior Investigative Counsel

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## ABBREVIATIONS .....

DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
EDB	Examiner Development Branch
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
GSE	Government-Sponsored Enterprise
HFE Program or Program	Housing Finance Examiner Commission Program
ICP	Individual Commission Plan
OHRM	Office of Human Resources Management
OIG	Federal Housing Finance Agency Office of Inspector General
OJT	On the Job Training

## BACKGROUND.....

In September 2011, we evaluated FHFA’s capacity to examine Fannie Mae and Freddie Mac (collectively, the Enterprises) and the Federal Home Loan Banks (FHLBanks).<sup>1</sup> We found that only one-third (34%) of the Agency’s non-executive examiners were commissioned.<sup>2</sup> The Agency agreed with our finding that the efficiency and effectiveness of its examination program was impeded because it had an insufficient number of commissioned examiners.<sup>3</sup>

### **In 2011, FHFA Determined That It Needed Additional Commissioned Examiners and a Commissioning Program to Produce Them**

According to FHFA, the Agency’s “supervision of the GSEs is virtually identical to—and clearly modeled on—Federal bank regulators’ supervision of banks...”<sup>4</sup> However, the large proportion of FHFA’s examiners without commissions—as well as its lack of an examiner commissioning program—made FHFA an outlier among the federal financial regulators. FHFA determined that it needed a commissioning program on par with those of the established federal financial regulators. In 2011, Agency officials said they were reviewing other federal financial regulators’ commissioning programs as they developed their own, which they expected to be in place later that year.

In 2013, FHFA inaugurated its HFE Program. FHFA explained that an HFE commission “indicate[s] whether an examiner is qualified to lead the examination of a major risk area at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks [and] . . . ensure[s] an examiner has the skills and technical knowledge necessary to evaluate the conditions and practices of the entities that FHFA supervises.”

The HFE Program curriculum was comprised of coursework, on the job training (OJT), and a final examination. FHFA required all examiners hired after July 17, 2013, to enroll in the Program and complete it within about four years. That timeframe could be “shortened for participants with prior classroom training and work experience.” Examiners could also

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<sup>1</sup> OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (September 23, 2011) (EVL-2011-005) (online at [www.fhfa.gov/sites/default/files/EVL-2011-005.pdf](http://www.fhfa.gov/sites/default/files/EVL-2011-005.pdf)).

<sup>2</sup> Commissioning is a structured process of classroom and on the job training that provides examiners with technical competencies and practical examination experiences.

<sup>3</sup> At that time, a commissioned examiner was an examiner who had received a commission from another financial regulator before coming to FHFA.

<sup>4</sup> By statute, FHFA must conduct annual examinations of the safety and soundness of the Enterprises and the FHLBanks. FHFA examiners have the same authority, and are subject to the same laws, as examiners employed by the Federal Reserve Banks. See 12 U.S.C. § 4517(a)(c)(e).

receive HFE commissions based on having been commissioned previously by other financial regulators. During the first half of 2014, FHFA awarded the first HFE commissions to 59 examiners, based on their having been commissioned previously by other financial regulators.<sup>5</sup>

The Agency's Examiner Development Branch (EDB) has administered the Program since the Program was established. The EDB is housed in DER under the auspices of the Associate Deputy Director, Office of Enterprise Supervision Operations (the Associate Deputy Director).

### **Since Its Inception, FHFA's Housing Finance Examiner (HFE) Commission Program Has Not Been on Track to Achieve its Objective: Producing Commissioned Examiners in About Four Years**

In a July 2015 report, we presented evidence indicating that the Program was not on track to produce commissioned examiners within about four years.<sup>6</sup>

As we reported, during the Program's first 19 months of operation (August 2013 to March 2015), many of the 66 then-enrolled examiners were failing to make progress in completing Program requirements, thereby placing at high risk their ability to obtain commissions within about four years.<sup>7</sup> Moreover, there were weaknesses in the Agency's administration of the Program. For example, FHFA had no records of its then-enrolled examiners' progress (or lack thereof) in meeting their OJT requirements. The Agency also did not always comply with its own rules when shortening the Program by issuing waivers for the Program's requirements. Therefore, the Agency lacked reasonable assurance that the waivers it granted satisfied its established criteria.

#### ***In 2015, FHFA Initiated Five Enhancements to the HFE Program to Place it on Track***

FHFA agreed with the recommendation in our 2015 report that it determine and correct the causes of the shortfalls in the Program. Thereafter, FHFA identified the causes of the

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<sup>5</sup> In our July 2015 compliance review, we were advised by FHFA that it had awarded HFE commissions to 65 examiners commissioned previously by other financial regulators. In our next report on the HFE Program, published in March 2017, we reported that FHFA subsequently revised down to 59 the number of examiners to which it had awarded commissions.

<sup>6</sup> OIG, *OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program*, at 3 (July 29, 2015) (COM-2015-001) (online at [www.fhfa.gov/sites/default/files/COM-2015-001\\_1\\_0.pdf](http://www.fhfa.gov/sites/default/files/COM-2015-001_1_0.pdf)).

<sup>7</sup> Only one of the 66 then-enrolled examiners completed any of the 16 required OJT assignments during 2014 and early 2015, and over 20% of then-enrolled examiners completed no more than one of the required 16 courses.



shortfalls. It proposed to implement five enhancements to its administration of the Program designed to place it on track to achieving its objective by December 15, 2015.<sup>8</sup>

One of these five enhancements would incent examiners to progress through the Program and obtain a commission within about four years. Specifically, an examiner and her/his manager would create an Individual Commission Plan (ICP). It would contain a schedule pursuant to which the examiner would complete the Program's requirements within about four years. Periodically, the examiner's progress would be measured against the schedule in the ICP. The examiner's progress, or lack thereof, would serve as an element in the calculation of the examiner's annual performance assessments, to which raises and bonuses are tied. Thus, the examiner's successful adherence to the ICP schedule could have a salutary effect on the examiner's rate of compensation—a powerful incentive to progress through the Program.

We determined that FHFA's proposed corrective action, including the ICP/annual performance assessment enhancement, was responsive to our recommendation to correct the cited Program deficiencies.

### ***In 2017, and Again in 2018, OIG Determined the Program Was Not on Track***

In March 2017, we published a special report in which we found the Program still was not on track to produce commissioned examiners within about four years.<sup>9</sup> Specifically, neither DBR nor DER had fully implemented the ICP/annual performance assessment enhancement after FHFA had agreed to do so by December 15, 2015. We found that neither Division ensured that all of its enrolled examiners were completing Program requirements in accordance with their ICPs and that their relative progress in doing so had been incorporated into their 2016 annual performance assessments.<sup>10</sup> This development stood in stark contrast to the sentiment expressed to us by the EDB Manager during our 2017 review. At that time, she stated that EDB considered the ICP/ performance assessment enhancement to be FHFA's primary means to ensure its examiners completed the Program in a timely manner.

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<sup>8</sup> The full text of the five corrective actions is set forth in Appendix B. Those corrective measures included improved recordkeeping and communication of participants' status in the Program, as well as establishing policies for granting waivers and cross-divisional OJT.

<sup>9</sup> OIG, *Update on FHFA's Implementation of its Housing Finance Examiner Commission Program* (March 22, 2017 (COM-2017-003) (online at [www.fhfa.gov/sites/default/files/Update%20on%20HFE%20Program-final.pdf](http://www.fhfa.gov/sites/default/files/Update%20on%20HFE%20Program-final.pdf)).

<sup>10</sup> DBR did not use the 2016 annual performance review process to establish consequences for any of its 16 enrollees who had not satisfied HFE requirements for 2016. DER did so only for its 18 mandatory enrollees. It permitted managers to determine whether to include such HFE Program progress assessments for its 21 employees who enrolled in the Program on a voluntary basis.

We also found that none of the then-enrolled examiners could graduate from the Program because the Agency had failed to complete and administer a final examination. Consequently, we held open our 2015 recommendation pending, among other things, FHFA's full implementation of its administrative enhancements and the administration of a final examination.

In a September 2018 follow-up report, we found that the Program still was not on track to provide FHFA with additional commissioned examiners in about four years.<sup>11</sup> In fact, from the time the Agency began awarding HFE commissions in 2014 to June 2018, the size of its commissioned examiner corps had decreased from 59 to 58 despite FHFA's expenditure of over \$7.7 million on the Program.

The Program also suffered from a high non-completion rate: since 2014, only 9 individuals had graduated. Of the 66 examiners who enrolled in the Program in 2013, 6 had completed it and passed its final examination, 20 had dropped out, 16 left the Agency, and 24 remained enrolled. Moreover, five years into the four-year Program, fully one-third of the 24 examiners (8 examiners) had completed less than 75% of the Program's requirements.

Faced with these findings, the Associate Deputy Director reported to us that he intended to launch a review of the entire Program to determine whether any changes should be made to it. Consequently, we again held open our 2015 recommendation and committed to monitoring the Agency's ongoing efforts to revise the Program.

### **In 2019, FHFA Revised the HFE Commission Program**

The Associate Deputy Director's review of the Program evolved into FHFA's "Streamlining and Tailoring Initiative" (the streamlining initiative) under which it significantly revised the Program. Its 2019 Project Charter states that the streamlining initiative was comprised of two "executive sponsors"—the Deputy Directors of DER and DBR.<sup>12</sup> The changes to the Program made by the streamlining initiative "were made, in part, to address some of the impediments preventing candidates from completing the...Program."

According to the 2019 HFE Program Overview, the purpose of the Program remains the same: to produce examiners with HFE commissions, described as those examiners who have "demonstrated competency to be considered for Examiner-In-Charge (EIC) positions at the

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<sup>11</sup> OIG, *FHFA's Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners* (September 6, 2018) (COM-2018-006) (online at [www.fhfa.gov/sites/default/files/Compliance%20Review%20COM-2018-006.pdf](http://www.fhfa.gov/sites/default/files/Compliance%20Review%20COM-2018-006.pdf)).

<sup>12</sup> According to the Agency, the streamlining initiative changes were not approved by an official senior to the Deputy Directors of DBR and DER.

FHLBanks and Office of Finance and for lead roles in examination activities at the Enterprises.”

The streamlining initiative consolidated in-house courses and tailored the OJT to each division.<sup>13</sup> However, it also eliminated the requirement to complete the Program in about four years.<sup>14</sup> Examiners are still required to enroll in the Program, but both DER and DBR officials said they do not hold their examiners to the approximately four-year time frame.<sup>15</sup> DBR provided estimated completion dates for its enrolled examiners. DER does not know when its enrolled examiners will complete the Program.

The streamlining initiative also eliminated the requirement to make an examiner’s performance in completing Program requirements a component of the examiner’s annual performance rating. Since 2019, DER and DBR managers preparing enrolled examiners’ annual performance evaluations may (but are not required to) take into account their examiners’ relative progress in completing Program requirements.<sup>16</sup> As a result, the Agency has effectively removed what in 2017 the then-EDB Manager referred to as FHFA’s primary means to ensure timely completion of Program requirements.

Despite FHFA’s investment of approximately \$10.5 million since 2012, the Program has not succeeded in increasing the size of FHFA’s commissioned examiner corps. In fact, from 2013 through June 30, 2021, the size of FHFA’s commissioned examiner corps decreased in size from 59 to 55 commissioned examiners.

When it revised the Program in 2019, FHFA had received four previous OIG reports finding that examiners were not progressing through it at a rate sufficient to complete it and obtain commissions in about four years. One of the objectives of the streamlining initiative was

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<sup>13</sup> The Program’s curriculum continues to consist of coursework, OJT, and a capstone test (final examination). Full details are set forth in Appendix C.

<sup>14</sup> The 2013 HFE Program Overview states that “[t]he HFE Commission program is an approximately four-year commitment that combines internal and external classes and course work, on-the-job training (OJT), and tests.” The 2019 Program Overview does not contain a four-year timeframe—or any timeframe—within which an examiner is expected to complete the Program.

<sup>15</sup> The DBR Deputy Director stated that DBR works to have its examiners complete the Program “as quickly as possible.” DER officials did not provide us with a timeframe within which its examiners are expected to complete the Program.

<sup>16</sup> FHFA said that its annual performance assessment has been standardized across the Agency. It contains five critical elements, one of which is “Accountability.” According to an Agency official, “the Accountability critical element is sufficiently broad to include performance in the HFE Commission Program . . .” However, DER and DBR officials stated that an examiner’s progress (or lack thereof) is *not required* to be included in her/his performance review (emphasis added). Eliminating the requirement to calculate an enrolled examiner’s annual assessment—at least in part—upon the examiner’s progress in completing Program requirements greatly diminishes the utility of the ICP/assessment enhancement.

to facilitate examiners' progress through the Program and thereby improve the Program's completion rate. However, as detailed below, two of the revisions made by the streamlining initiative—the elimination of the approximately four-year completion requirement and the elimination of progress through the Program as part of an examiner's annual performance review (the performance incentive)—may cause examiners to move through the Program at an even slower rate, resulting in the production of even fewer commissioned examiners in about four years.

## FINDINGS .....

### **1. It Is Not Clear How Eliminating the Four-Year Completion Requirement and Removing the Performance Incentive Will Place the Program on Track to Achieve Its Objective**

As we reported prior to the streamlining initiative, despite the Agency's expenditure of over \$7.7 million, its commissioned examiner corps decreased in size from 59 in 2013 to 58 in 2018. Moreover, the rate at which examiners were progressing through the Program demonstrated that they were not on track to complete it in about four years.<sup>17</sup>

Since 2018 and the implementation of the changes made by the streamlining initiative, FHFA has spent an additional approximately \$2.8 million on the Program, yet its corps of commissioned examiners again decreased in size—down three examiners, from 58 in 2018 to a total of 55 as of June 30, 2021.<sup>18</sup> Furthermore, 23 of the 63 examiners enrolled as of June 30, 2021, have been enrolled in the HFE Program for more than four years. DER reported to us that, of its 43 enrolled examiners, 14 have been enrolled for more than four years, and 6 of those 14 examiners have been enrolled for eight years, i.e., since the inception of the HFE Examiner Program in 2013. Similarly, of the 20 DBR enrolled examiners, 9 have been in the Program for more than four years, and 5 of those 9 have been in the Program since 2013.

These data demonstrate that, since its inception in 2013, the Program has not been on track to produce commissioned examiners in about four years. However, the Agency has not explained how eliminating the requirement to complete the Program in about four years will increase the rate at which examiners will graduate from it. Neither has it explained how eliminating the requirement to base an examiner's annual assessment in part on her/his progress through the Program will incent the examiner to complete it faster, if at all. As set

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<sup>17</sup> OIG, *FHFA's Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners*, at 11.

<sup>18</sup> Two DER examiners have earned HFE commissions under the streamlined Program.

forth above, since these changes have been implemented, the number of commissioned examiners has decreased and the length of enrollment has increased.

## **2. FHFA's Reasons for Eliminating the Four-Year Requirement and the Performance Incentives are Unclear**

We were informed by the Agency that there were no contemporaneous records documenting the reasons these changes were made to the Program. Therefore, we interviewed several Agency officials to ascertain the basis for them.

### ***Elimination of the Requirement to Earn a Commission in about Four Years***

The DBR Deputy Director said that the requirement to complete the Program within about four years was eliminated because of the effect it had upon examiners with specialized skill sets, such as IT examiners, and those who examine discrete programs, such as the Affordable Housing Program. As it was explained to us, such examiners may be unable to complete the Program in about four years while performing their primary duties, or to pass the final examination when they finally do so.

DER executives whom we interviewed did not mention the issue of specialized examiners, but advanced two other reasons for the elimination of the four-year completion requirement.

One executive suggested that, despite its having done so for approximately five years, FHFA was precluded, perhaps on legal grounds, from requiring newly hired examiners to obtain HFE commissions as a condition of their employment or to obtain those commissions within about four years. However, the Director of the Office of Human Resources Management (OHRM) informed us that, upon consultation with the Agency's Office of General Counsel, he advised the DER Associate Director (in writing) that there were no barriers, legal or otherwise, to making completion of the Program and earning a commission a condition of employment for newly hired examiners.<sup>19</sup>

A second executive suggested that DER hires "experienced" (albeit, non-commissioned) examiners in the 570 (examiner) job series at grade levels 13-15. He stated that "DER believes that [such examiners are already] qualified to lead a targeted examination of the Enterprises, regardless of whether they hold a commission." On the other hand, the DER Deputy Director said the FHFA Director was moving toward hiring employees at a more junior level, i.e., with less experience.

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<sup>19</sup> The OHRM Director said that since 2015, newly hired examiners are informed in their offer letters that completing the Program is a requirement of their new position.

### ***Elimination of the Program as Part of an Examiner's Annual Performance Rating***

The DER Deputy Director also suggested that FHFA may have been precluded from tying an examiner's progress in the Program to the examiner's annual performance rating. However, the ORHM Director reported to us that he informed the Deputy Director that there were no barriers to tying satisfactory progress in completing the Program to an enrolled examiner's annual performance rating.

### **3. FHFA's Continued Need for Commissioned Examiners Requires It to Place the Program on Track**

The Deputy Directors of DER and DBR have both stated that they continue to need commissioned examiners to carry out their respective missions. The DER Deputy Director said that examiners who complete the Program possess specialized knowledge and understanding of the Enterprises and their two lines of business—and that DER was “short” of such examiners.<sup>20</sup>

The DBR Deputy Director said he requires EICs to have HFE commissions and that he would not assign an examiner without an HFE commission to serve as an EIC unless a commissioned examiner was unavailable to him. The DBR Deputy Director said that, at present, he has sufficient commissioned examiners available to him to staff future examinations with EICs who are commissioned. DBR asserts that, as of June 30, 2021, it expects all 20 of its examiners who are enrolled in the Program to complete it within approximately the next four years.

Beyond the Deputy Directors' statements, the Divisions' record of assigning non-commissioned examiners to lead their 2019 and 2020 examinations is evidence of their need for additional commissioned examiners, particularly in DER.

#### ***DER's 2019 and 2020 Examinations***

In DER, the EICs of the Fannie Mae and Freddie Mac examination teams are both commissioned examiners. Examiners below the EIC level lead examinations of major risk areas, such as credit risk, market risk, model risk, and operational risk. However, in 2019 and 2020 DER did not regularly assign HFE commissioned examiners to lead the major risk areas of targeted examinations of the Enterprises. According to the Agency, just 2 of the 25 targeted examinations initiated in 2019 were led by commissioned examiners, and only 8 of the 64 examinations initiated in 2020 were led by commissioned examiners. In other

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<sup>20</sup> Despite what we were told by the DER Deputy Director, a DER official told us that, as part of its planning, DER does not project the number of commissioned examiners it needs to staff targeted examinations of major risk areas.

words, non-commissioned examiners led 92% of the examinations initiated in 2019 and approximately 88% of the examinations initiated in 2020. Absent a surge in HFE-commissioned examiners and a change in DER’s planning, this trend may continue.

### ***DBR’s 2019 and 2020 Examinations***

The DBR Deputy Director told us that 22 of the 24 annual examinations conducted in 2019 and 2020, or 92%, were led by commissioned examiners. According to DBR, the one non-commissioned EIC who led two examinations in 2019 and 2020 served in this capacity before DBR established the requirement for EICs to be commissioned. DBR states that this non-commissioned EIC is “close” to completing the Program.

## **CONCLUSIONS .....**

As of June 30, 2021, the HFE Commission Program still does not appear to be on track to achieve its primary objective of providing FHFA with additional commissioned examiners within about four years. Indeed, the Agency has eliminated the requirement for an enrolled examiner to graduate from the Program and earn a commission in about four years. It has also eliminated the main incentive for examiners to progress through the Program—the direct impact on their performance ratings and, by extension, their compensation.

FHFA has not explained how the elimination of these key features of the Program will enable examiners to progress through it more quickly and thereby render the Program more productive. Therefore, the Agency lacks assurance that its streamlined and tailored Program will achieve its objective of providing it with additional commissioned examiners within about four years. This, in turn, will continue to impede FHFA’s ability to assign commissioned examiners to lead major risk areas of DER’s targeted examinations of the Enterprises.

Accordingly, we will hold open our 2015 recommendation, i.e., that FHFA should determine the causes of the shortfalls in the 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 GSE examinations.

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

FHFA’s response to this report is located in Appendix A.

In it, the Agency fails to explain how eliminating the requirement to complete the Program in about four years will increase the rate at which examiners will graduate from it.

The Agency’s commitment to include HFE candidates’ progress in their annual performance plans (and thereby incent them to complete the Program) is directly responsive to our 2015 recommendation.

We will monitor the Agency’s implementation of its further commitments, i.e., to hold staff members accountable for failing to complete their OJT assignments, to pursue remedial actions with candidates who fail the capstone test, to proactively identify OJT opportunities for eligible for staff members, and to consider commissioning status a factor in selecting divisional leaders. The Agency’s successful implementation of these commitments would be responsive to our 2015 recommendation. We will follow-up on this matter and report on it as appropriate.



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

The objective of this special project was to report on FHFA’s 2018 initiative to review the HFE Program, any changes made to the Program stemming from the initiative, and the result of any such changes for the period October 1, 2018, to June 30, 2021. Our objective included determining whether the Program is currently producing commissioned examiners adequate to fulfill needs identified by the Agency within about four years.

To accomplish our objective, we evaluated Agency documentation of its review and revision to the Program. We also assessed FHFA’s records regarding HFE Program enrollment, examiners’ tenure in the Program, and the commissioning status of enrolled examiners. We obtained information regarding the Agency’s HFE Program costs related to EDB staff administering the HFE Program, as well as costs for external HFE Program classes.

Finally, we interviewed the Deputy Directors for DER and DBR, the EDB Program Manager, and other FHFA employees involved in the development and implementation of the program since 2018.

We conducted our work from July 2021 through September 2021.

We provided a draft of this report to FHFA for its review and comment.

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



### Federal Housing Finance Agency

#### MEMORANDUM

TO: Richard Parker, Senior Investigative Counsel, Office of Inspector General

FROM: Andre D. Galeano, Deputy Director, Division of Enterprise Regulation ANDRE GALEANO Digitally signed by ANDRE GALEANO  
Date: 2021.12.13 16:55:41 -0500  
Louis Scalza, Acting Deputy Director, Division of FHLBank Regulation LOUIS SCALZA Digitally signed by LOUIS SCALZA  
Date: 2021.12.13 15:56:25 -0500

SUBJECT: Draft Status Report: *FHFA's Recent Changes to its Housing Finance Examiner Commission Program*

DATE: December 13, 2021

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Thank you for the opportunity to review the Office of Inspector General's (OIG) draft report referenced above (Report). The objective of the OIG's special project was to report on FHFA's 2018 initiative to review the Housing Finance Examiner (HFE) Commission Program (Program), any changes made to the Program stemming from the initiative, and the result of any such changes for the period October 1, 2018, to June 30, 2021. The OIG's objective included determining whether the Program is currently producing commissioned examiners adequate to fulfill needs identified by the Agency within about four years.

The OIG concluded that the Program still does not appear to be on track to achieve its primary objective of providing FHFA with additional commissioned examiners within about four years. Accordingly, the OIG will hold open their 2015 recommendation, *i.e.*, FHFA should determine the causes of the shortfalls in the 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 GSE examinations.

Less than three months ago, FHFA announced new leadership for the Division of Enterprise Regulation (DER) and the Division of FHLBank Regulation (DBR). Both DER and DBR are now led by experienced, commissioned FHFA examiners. FHFA leadership is committed to the continued development of its employees and operations in order to make FHFA a stronger and more nimble regulator.

DER and DBR have been working over the past few years, following the OIG's 2018 report, to improve the commissioning process. This work resulted in a comprehensive program change to make the Program more effective and efficient. DER and DBR anticipate more examination staff taking the capstone test in 2022 and 2023 than in previous years.

First, the Program now has two targeted tracks, one for staff that conduct examinations of the Enterprises and one for staff that conduct examinations of the Federal Home Loan Banks (FHLBanks). This targeted focus allows for more thorough instruction on relevant subject material. DER and DBR each offered the first course, on examination practices, by October 2020 and leveraged new technology delivered in a virtual environment to meet the challenges of the COVID-19 environment. Other courses focus on component and composite rating area assessments and applicable rules and regulations. While the COVID-19 pandemic and the immediate transition to full-time virtual work presented challenges to implementing Program improvement, FHFA has succeeded in delivering all courses planned for 2020 and 2021. This will help more examiners receive commissions in 2022 and 2023.

Second, the Program now focuses the on-the-job-training (OJT) component to the HFE candidate's respective division of DER or DBR, which allows the individual to gain more targeted experience in a more efficient manner.

Third, the Program's capstone test was revised to assess more areas of an examiner's knowledge base.

The Program changes required existing HFE candidates to retake the updated courses and receive instruction on new course material. While this decision precluded candidates from being able to receive a commission during 2020 and 2021, it was the correct decision to ensure HFE candidates possess the core knowledge needed for the revised capstone test and their position as dedicated examiners in their respective division.

As of today, the Deputy Director of DER and the Examiners-in-Charge (EICs) of Fannie Mae and Freddie Mac hold an HFE commission. In DER, the EICs and the Deputy Director approve all findings and all targeted examinations, which are subject to rigorous quality control review. In DBR, the Acting Deputy Director, the Examination Group Associate Directors, and all but one EIC are commissioned examiners. (The one that is not commissioned is in the Program and had been an EIC prior to DBR instituting a requirement that EICs be commissioned.)

To address the OIG's concerns raised in this Report and to emphasize the importance of the HFE candidate's progress in completing the requirements of the Program, DER and DBR have directed HFE candidates and their rating officials to include progress in the Program as a component of their performance plans for 2022 and going forward. DER and DBR will hold

staff accountable for not taking OJT or training courses offered to them and will seek remedial action should staff be unable to pass the capstone test. Furthermore, DER will take a proactive and programmatic approach to identify OJT opportunities for staff in the upcoming year upon the adoption of the annual examination plans. DER and DBR have made commissioning status a key factor when making personnel decisions for leadership positions (*i.e.*, DER Examination Managers, DER and DBR EICs, and DBR Examination Group Associate Directors).

Lastly, for several years DER has emphasized that the Program does not have a four-year completion requirement. Instead, the four-year timeframe for completion of the commissioning process was an objective. In reviewing the Program, the Deputy Directors of DER and DBR have re-emphasized that there is no four-year requirement to become commissioned, due to several factors. These factors include, but are not limited to, the limited amount of potential OJT opportunities because of the small number of examinations in DBR and the number of DER staff that need OJT outside of their area of expertise.

We appreciate the professionalism and courtesy of the OIG staff who conducted this special project. We find the results valuable, and we will continue to make the Program a priority for our respective divisions. If you have any questions related to our response, please do not hesitate to contact Eric Wilson, DER, or Rick Dalton, DBR.

cc: Diana Stebick  
Eric Wilson  
Rick Dalton  
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John Major



## APPENDIX B: FHFA’S PROPOSED CORRECTIVE ACTIONS TO OIG’S 2015 HFE PROGRAM RECOMMENDATION .....

1. To assist program participants in tracking progress toward their HFE commission curriculum and OJT requirements, DER will enhance existing recordkeeping and communication mechanisms so that EDB periodically communicates to participating examiners and their managers EDB’s record of the remaining program requirements for each examiner;
2. To promote timely, documented progress toward participant completion of program requirements, DBR and DER will enhance program planning practices so that:
  - a. Each examiner enrolled in the program will submit for manager review an ICP for fulfillment of remaining curriculum and OJT program requirements, with consideration given to any waivers granted;
  - b. Managers will be responsible for review and approval of ICPs;
  - c. Each ICP will include a target program completion date within a reasonable time, with consideration of examination objectives and priorities;
  - d. The ICP will be promptly (i.e., within 90 days) documented by the participant and his or her manager and communicated to an EDB point of contact; and
  - e. Managers will incorporate HFE commission requirements into performance management discussions.
3. To better enable effective senior executive oversight of program participants’ progress, EDB will, by December 15, 2015, establish information reporting processes to ensure that senior executives in DBR and DER receive periodic updates going forward on the progress of the HFE commission program participants in DBR and DER;
4. To address potential inconsistencies in waiver granting and documentation, EDB will, by October 8, 2015, confirm that all waiver documentation provided through June 30, 2015, has been reviewed to determine whether documentation is complete. EDB will determine by December 15, 2015, whether clarifications should be made to waiver guidance for program participants, managers, second-line supervisors, and EDB; and
5. The ongoing importance to the HFE commission program of cross-divisional OJT remains under consideration by DBR and DER. By November 5, 2015, the Deputy Directors of DBR and DER will make a determination on whether and how to

continue the requirement for cross-divisional OJT (subject to Agency review). The determination will be based on a written recommendation by an advisory group of senior DBR and DER staff.

## APPENDIX C: HFE PROGRAM CURRICULUM CHANGES .....

The changes made to the HFE Program as part of the Streamlining Initiative are outlined below.

- **Eligibility:** Whereas the HFE Program formerly included those who were not examiners, the revised HFE Program limits eligibility primarily to examiners. According to the Agency, staff who do not hold examiner positions in DBR and DER may enroll in coursework that is offered by FHFA as part of the commission program, if space is available. The Agency states that OJT is required to obtain the commission; however, it will be made available only to HFE program participants. FHFA told us that it removed from the HFE Program those who were not in examiner roles with a couple of exceptions.
- **Coursework:** As described before, the HFE Program consists of externally- and internally-offered courses. The external courses did not change when the HFE Program was revised. Several changes, however, were made to the internal courses. The internal courses are now customized for DER and DBR. Each examiner must complete coursework covering examination practices, the various examination component areas (e.g., capital, liquidity, operational risk), and rules and regulations specific to the Enterprises or FHLBanks. There is an examination after the internal courses.
- **OJT:** The Agency also revamped its OJT. An FHFA official described the former HFE Program's OJT as "task-oriented." Examiners were previously required to train across examination divisions, too. OJT now involves examiners completing at least two years of "satisfactory experience" leading certain examination component areas specific to either the Enterprises or FHLBanks. Such experience includes preparing examination documentation and leading meetings with the regulated entity personnel.
- **Final examination:** The HFE Program was originally created with a final examination requirement. As we reported in 2018, the final examination at that time included a case study. The HFE final examination is now called a capstone test, and, according to FHFA, it is comprised of multiple-choice questions on FHFA's regulated entities and oversight responsibilities, as well as Agency rules, regulations, and guidance. FHFA states that the capstone test has a portion that is specific to the DER or DBR coursework and OJT completed by the candidate. The Agency says that the HFE candidate may take the examination after completion of all required courses and OJT and with the requisite supervisory approval.

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