

Federal Housing Finance Agency
Office of Inspector General



FHFA Should Improve its Administration of the Suspended Counterparty Program

Special Project • COM-2017-005 • July 31, 2017



COM-2017-005

July 31, 2017

Executive Summary

The Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG) has determined to focus its resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, Fannie Mae and Freddie Mac (the Enterprises), and the Federal Home Loan Banks (FHLBanks) in order to best leverage its resources to strengthen oversight. Our 2017 *Audit and Evaluation Plan* identifies four significant risks, one of which is “counterparty risk”—the risk that a business counterparty will not meet its contractual obligations.

The Enterprises and the FHLBanks (together, the regulated entities) have adopted counterparty risk management programs designed to protect them from excessive financial loss caused by deterioration in a counterparty’s financial condition. FHFA adopted the Suspended Counterparty Program (SCP) in June 2012 to augment the regulated entities’ programs and provide them with additional protection from the financial and reputational risks posed by individuals and businesses with a history of engaging in fraudulent conduct.

FHFA promulgated interim and final rules requiring each regulated entity to refer to FHFA a current or former counterparty or an affiliate that has been convicted of, or sanctioned administratively for, engaging in mortgage-related fraud or other financial misconduct within the last three years (“covered misconduct”) and limiting FHFA’s authority to suspend a current and former counterparty or an affiliate to a three-year period after a conviction or administrative sanction was imposed for covered misconduct.

FHFA’s Office of General Counsel (OGC) reviews each referral and determines whether to propose a suspension of the referred counterparty from conducting further business with the regulated entities. FHFA has delegated to its General Counsel the authority to suspend counterparties under the SCP. From the effective date of the SCP in August 2012 through December 31, 2016, OGC received 771 referrals and suspended 24 counterparties of the regulated entities. FHFA posts on its public website the names of suspended counterparties and the details of their suspensions.

We initiated this special project to assess OGC’s administration of the SCP and determine whether the program is achieving its stated objective.

We found deficiencies in OGC’s administration of the SCP, the remediation of which could enable the program to effectively limit the regulated entities’ exposure to the risks inherent in doing business with counterparties found to have engaged in covered misconduct. As of December 31, 2016, OGC had



COM-2017-005

July 31, 2017

a backlog of 424 referrals under the SCP, the majority of which had been pending with OGC for a year or more. OGC's failure to resolve referrals on a timely basis is consequential: we identified five instances in which OGC did not resolve referrals within a three-year period after a finding of covered misconduct, which precluded the suspending official from determining whether the counterparty should be suspended under the SCP.

Of the 24 suspensions imposed by FHFA, all of which involved mortgage-related fraud, we found the length of three suspensions fell short of FHFA's internal guidelines. Further, we found that FHFA did not document the mitigating factors that support the shorter suspensions, in contravention of FHFA's Records Management Policy.

OIG recommends that FHFA establish a plan with a timeline to reduce the SCP backlog and document its reasons for any departures from the suspension periods prescribed in its guidelines. In its response, the Agency accepted our recommendations.

This report was prepared by David P. Bloch, Senior Investigative Counsel; Alisa Davis, Senior Policy Advisor; and Wesley M. Phillips, Senior Policy Advisor. 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.

Richard Parker
Deputy Inspector General for Compliance & Special Projects

TABLE OF CONTENTS

EXECUTIVE SUMMARY2

ABBREVIATIONS5

BACKGROUND6

 FHFA Established the SCP to Augment the Counterparty Risk Management
 Programs Operated by the Regulated Entities6

 FHFA’s Office of General Counsel Resolves Referrals Made Under the SCP.....7

 FHFA’s Guidelines for Length of Suspension8

 OGC’s SCP Manual Established a Timeline for its Resolution of Referrals9

FACTS10

 OGC Has a Significant Backlog of SCP Referrals10

 OGC’s Delay in Resolving SCP Referrals Effectively Extinguished FHFA’s
 Authority to Suspend Five Counterparties Found to Have Engaged in Covered
 Misconduct11

 OGC Departed from its Guidelines on Several Occasions11

FINDINGS AND CONCLUSION13

RECOMMENDATIONS13

FHFA COMMENTS AND OIG RESPONSE14

OBJECTIVE, SCOPE, AND METHODOLOGY15

APPENDIX: FHFA MANAGEMENT RESPONSE17

ADDITIONAL INFORMATION AND COPIES19

ABBREVIATIONS

Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
Guidelines	Suspension guidelines
OGC	FHFA Office of General Counsel
OIG	Federal Housing Finance Agency Office of Inspector General
Regulated entities	The Enterprises and the FHLBanks
SCP	Suspended Counterparty Program
SCP Manual	Suspended Counterparty Program Enforcement Manual

BACKGROUND.....

In the course of their operations, the regulated entities transact business with individuals and third parties, referred to as counterparties.¹ The Enterprises' counterparties include mortgage sellers and servicers, and the FHLBanks' counterparties include financial institutions that obtain loans from them. As of December 31, 2016, the Enterprises reported to us that they had almost 5,000 counterparty relationships.

The Enterprises report in their annual securities filings that their counterparties may pose risks to their safe and sound operation should the counterparties fail to meet their contractual obligations or engage in fraud or other financial misconduct. For example, in 2010 Freddie Mac claimed in a bankruptcy proceeding that it lost \$1.78 billion because, among other things, its counterparty, Taylor, Bean & Whitaker, sold it fraudulent and defective loans.

The regulated entities have established counterparty risk management programs, the purpose of which is to manage counterparty risk through various means, including maintaining counterparty eligibility standards, evaluating counterparties' financial conditions, monitoring exposure to potential losses, and working with counterparties to limit realized losses. The Enterprises and FHLBanks may also cease doing business with counterparties that present unacceptable risks.²

FHFA Established the SCP to Augment the Counterparty Risk Management Programs Operated by the Regulated Entities

FHFA explained in 2012 that it established the SCP to augment existing anti-fraud controls at the regulated entities by "ensur[ing] [they] are not exposed to unnecessary risk from doing business with individuals or businesses with a demonstrated history of fraudulent conduct."³ FHFA issued an interim rule for the SCP on October 23, 2013, and issued a final rule on December 23, 2015. Pursuant to both the interim rule and the final rule, a regulated entity must refer to FHFA a current or former counterparty or an affiliate that has engaged in

¹ See OIG, *Audit and Evaluation Plan* (Mar. 2017) (online at www.fhfaog.gov/Content/Files/A%20and%20E%20Plan%20March%202017.pdf).

² FHFA, Advisory Bulletin 2013-01, *Contingency Planning for High-Risk or High-Volume Counterparties*, at 3 (Apr. 1, 2013) (online at www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/20130401_AB_2013-01_Contingency-Planning-for-High-Risk-or-High-Volume-Counterparties_508.pdf). See also OIG, *FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Servicers* (Sept. 18, 2012) (AUD-2012-007) (online at www.fhfaog.gov/Content/Files/AUD-2012-007.pdf).

³ News Release, FHFA Establishes Additional Anti-Fraud Measure for Fannie Mae, Freddie Mac and Federal Home Loan Banks (June 18, 2012) (online at www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Establishes-Additional-AntiFraud-Measure-for-Fannie-Mae-Freddie-Mac-and-Federal-Home-Loan-Banks.aspx).

covered misconduct when it becomes aware of such an occurrence.⁴ Others, such as OIG or the Department of Housing and Urban Development, may refer to FHFA any counterparty believed to have engaged in covered misconduct.

The term “covered misconduct” is defined in the final rule as:

Any conviction or administrative sanction within the past three (3) years if the basis of such action involved fraud, embezzlement, theft, conversion, forgery, bribery, perjury, making false statements or claims, tax evasion, obstruction of justice, or any similar offense, in each case in connection with a mortgage, mortgage business, mortgage securities or other lending product.⁵

Pursuant to the final rule, FHFA’s authority to suspend a current or former counterparty or an affiliate is limited to those instances where the counterparty was convicted or administratively sanctioned for covered misconduct within the last three years. FHFA’s suspending official, its General Counsel, likened the three-year period to a statute of limitations: he explained to us that FHFA cannot impose a suspension under the SCP for covered misconduct that falls outside the three-year period.⁶

FHFA’s Office of General Counsel Resolves Referrals Made Under the SCP

FHFA’s OGC is responsible for reviewing SCP referrals and recommending resolutions. It has assigned an Associate General Counsel to serve as program manager for the SCP, with support from an administrative assistant. The program manager reported to us that she devotes “a big chunk” of her time to the SCP. The administrative assistant estimated to us that she spends 90% to 95% of her time supporting the program manager. When a proposed or final decision is made to suspend a counterparty for covered misconduct, the FHFA Director, or an FHFA official with delegated authority, must sign the proposed and final suspension orders and their accompanying notices. According to FHFA, the suspending

⁴ Under 12 CFR § 1227.4(a), the regulated entities’ duty to refer covered misconduct to FHFA is not temporally limited; they must refer covered misconduct on the part of current or former counterparties “when they become aware of it.” A former counterparty or an affiliate of a regulated entity is one who has engaged in a covered transaction “within the past three years.” A covered transaction means a contract, agreement, or financial or business relationship between a regulated entity and a person and any affiliates thereof. 12 CFR § 1227.2. Covered transactions do not include residential mortgage loans secured by the respondent’s own personal or household residence. *See* 12 CFR § 1227.3(d).

⁵ 12 CFR § 1227.2.

⁶ The suspending official noted that, pursuant to the final rule, 12 CFR § 1227.3(b), FHFA may pursue other regulatory or supervisory actions against “any ... person and any affiliates thereof,” including current or former counterparties of the regulated entities, which FHFA cannot suspend under the SCP.

official also signs every recommendation memorandum supporting the decision not to suspend a party referred to OGC under the SCP. See 12 CFR §§ 1227.2; 1227.5-1227.6.

FHFA's Guidelines for Length of Suspension

FHFA has issued guidelines for the terms of counterparty suspensions, which are published on FHFA's website. The guidelines provide for three types of counterparty suspensions:

- **Five Year Suspension:** counterparties that “are sentenced or sanctioned as a result of ‘covered misconduct,’ as defined in the [SCP regulation at 12 CFR § 1227 (the Regulation)], for less than five (5) years (including supervised release) will be suspended from doing business with Fannie Mae, Freddie Mac and the Federal Home Loan Banks for five (5) years, absent mitigating conditions;”
- **Ten Year Suspension:** counterparties that “are sentenced or sanctioned as a result of ‘covered misconduct,’ as defined in the Regulation, for at least five (5) years but less than ten (10) years (including supervised release) will be suspended from doing business with Fannie Mae, Freddie Mac and the Federal Home Loan Banks for ten (10) years, absent mitigating conditions;”
- **Indefinite Suspension:** counterparties that “are sentenced or sanctioned as a result of ‘covered misconduct,’ as defined in the Regulation, for ten (10) years or more (including supervised release) will be suspended from doing business with Fannie Mae, Freddie Mac and the Federal Home Loan Banks indefinitely, absent mitigating conditions.”⁷

FHFA's guidelines govern the length of an appropriate suspension, except when “mitigating factors,” which are not identified in the guidelines, are found to exist. The suspending official provided us with two examples of mitigating factors: whether an individual was administratively debarred, as opposed to convicted of a crime; and whether an individual sentenced to confinement had been released by the time his or her suspension was adjudicated. The suspending official said that, pursuant to FHFA's Records Management Policy, OGC creates a record of its decision in each referral, and that the records should set forth the reasons for any suspension that deviates from the guidelines.⁸

⁷ FHFA, Suspended Counterparty Program: Suspension Guidelines (online at www.fhfa.gov/SupervisionRegulation/.../Suspension-Guidelines_11-10.pdf) (accessed July 26, 2017).

⁸ See FHFA, Records Management Policy (Jan. 23, 2015) (online at www.fhfa.gov/AboutUs/Policies/RIM%20Policies/FHFA%202017%20Records%20Management%20Policy.pdf).

FHFA publishes the names of all suspended counterparties and the details of their suspensions on its website.

OGC's SCP Manual Established a Timeline for its Resolution of Referrals

In 2012, OGC adopted the Suspended Counterparty Program Enforcement Manual (SCP Manual) setting forth the standards and procedures for administering the SCP. According to the SCP Manual, each such referral will be resolved within 126 days. The SCP Manual contemplates that the following actions will be taken within this 126-day period:

- The program manager evaluates the merits of the referral, conducts any further research determined to be warranted, and drafts and sends a recommendation memorandum to the suspending official within 30 days after OGC receives a referral;
- The suspending official reaches a preliminary decision on whether to suspend the affected counterparty and issues a notice of proposed suspension to that counterparty within 15 days after receipt of the program manager's recommendation memorandum;
- Each recipient of a notice of proposed suspension may submit its response to the notice to OGC within 21 days;⁹
- Within 30 days after the response period for the proposed suspension order, the program manager prepares and sends a revised memorandum containing the recipients' responses, and a recommendation as to whether to impose a final suspension, to the suspending official; and
- The suspending official issues a decision whether to suspend a counterparty within 30 days of receipt of the revised memorandum from the program manager. Where the suspending official decides to suspend a counterparty, a notice is issued to all of the entities regulated by FHFA directing them to cease doing business with the affected counterparty for a specified period of time.¹⁰

The program manager does not use the timeline in the SCP Manual because, according to OGC, the SCP Manual no longer governs the SCP. However, OGC has not established another timeline or standard under which to resolve referrals. Given the importance of

⁹ FHFA provides notice and an opportunity to respond to all parties that may be affected by a proposed order of suspension. A regulated entity's response to a proposed suspension may include information regarding: its reasonable expectation that the suspension would have an adverse financial or operational effect on the regulated entity; an existing contractual relationship for which the regulated entity may request a limitation or qualification; if it desires to continue any business relationship, along with relevant support; or alternatives to suspension that still reduce the risk posed by the counterparty. *See* 12 CFR § 1227.5(g).

¹⁰ 12 CFR § 1227.3.

resolving referrals within three years of the underlying conviction or sanction, and lacking another standard, we used the timeline in OGC’s SCP Manual to assess its efficiency in this regard.

When the suspending official determines to suspend a counterparty and issues a final suspension order, the suspended counterparty can appeal to the FHFA Director or seek judicial review. See 12 CFR §§ 1227.7-1227.9.

We conducted this review to assess whether OGC’s execution of the SCP fulfills the objective of the SCP: to ensure that the entities regulated by FHFA are “not exposed to unnecessary risk from doing business with individuals or businesses with a demonstrated history of fraudulent conduct.”¹¹

FACTS

We found deficiencies in OGC’s administration of the SCP, which adversely affected its ability to ensure that the program achieves its stated objective. Specifically, we found that OGC has a significant backlog¹² of pending SCP referrals, the majority of which have been pending within OGC for a year or more. We identified five instances in which OGC’s significant delays in resolving SCP referrals deprived FHFA of the ability to determine whether to suspend counterparties found guilty of fraud.

In those cases in which OGC decided to suspend a counterparty, we found that the suspending official generally followed FHFA’s guidelines in setting the suspension period. For the four years covered in this review, we identified three instances where the suspending official imposed a suspension period for a counterparty shorter than the period provided in the guidelines, but found no written explanation of the mitigating conditions that justified shorter suspension periods.

OGC Has a Significant Backlog of SCP Referrals

From the effective date of SCP in August 15, 2012, through December 31, 2016, OGC received 771 referrals, 738 of which we analyzed. As of December 31, 2016, OGC had not

¹¹ News Release, FHFA Establishes Additional Anti-Fraud Measure for Fannie Mae, Freddie Mac and Federal Home Loan Banks (June 18, 2012) (online at www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Establishes-Additional-AntiFraud-Measure-for-Fannie-Mae-Freddie-Mac-and-Federal-Home-Loan-Banks.aspx).

¹² We define “the backlog” as the total of those referrals which, according to OGC’s records, it received but has not yet finally decided; i.e., those referrals for which the suspending official has not signed a final memorandum containing his decision to suspend, or refrain from suspending, a referred counterparty or affiliate.

resolved 424 (57%) of the 738 referrals within the 126-day period specified in its SCP Manual. Our review of OGC's files for these 424 unresolved referrals found that 259 (61%) had been pending for a year or more. Thirty-one of the 259 referrals dated from 2014 and one dated from 2013.

Of the 738 referrals that we analyzed, we found that OGC made a suspension determination for 289. For the 289 referrals in which OGC reached a determination, it did not suspend counterparties in 265 of the referrals and suspended counterparties in the remaining 24. Our review of OGC files for the 289 referrals found that the majority were resolved by OGC beyond the 126-day timeline in the SCP Manual, and 79 (27%) were resolved after one year.

OGC's Delay in Resolving SCP Referrals Effectively Extinguished FHFA's Authority to Suspend Five Counterparties Found to Have Engaged in Covered Misconduct

Pursuant to Section 1227.2 of FHFA's final rule, FHFA's authority to suspend counterparties is limited to those who engaged in covered misconduct within the past three years.¹³ FHFA's suspending official likened the three-year period to a statute of limitations and explained that this provision bars FHFA from suspending a counterparty for covered misconduct for which a conviction or administrative sanction was imposed more than three years earlier.

In our review of the 265 referrals that did not result in the imposition of a suspension, we identified five referrals of individuals convicted of covered misconduct. The suspending official reported to us that, under FHFA's final rule, he lacked authority to impose a suspension in these five referrals because OGC did not resolve any of them within three years after the conviction was imposed (OGC's files reveal that these five referrals had been pending in OGC for periods from nearly two to almost four years).

OGC Departed from its Guidelines on Several Occasions

We reviewed OGC's files for the 24 suspensions it had imposed as of December 31, 2016. For these 24 suspensions, we sought to determine whether the suspending official complied with FHFA's guidelines for the term of the suspensions by comparing the term of the suspension to the length of the sentence or administrative sanction imposed for the covered misconduct. We found that: in 19 cases, OGC's suspension determinations generally were consistent with the guidelines; in four cases, they were not; and, in one case, limitations in the referring agency's records prevented us from reaching a determination. As detailed below, in

¹³ See note 6, *supra*. FHFA asserts that, under the final rule, 12 CFR § 1227.3(b), it may pursue other regulatory or supervisory actions apart from the SCP under which to, among other things, preclude the regulated entities from doing business with particular counterparties. We do not address this assertion because, in the five referrals at issue, FHFA did not invoke, or avail itself of, any authorities apart from the SCP.

three of the four cases, the suspending official did not document the reasons for imposing a lesser suspension than prescribed by the guidelines.¹⁴

In these three cases, OGC files revealed the following: one of the three referrals involved a counterparty sentenced to ten years for conspiracy to commit various types of fraud; the other two involved counterparties sentenced to five years for theft and wire fraud. The suspending official imposed a suspension shorter than that mandated by the guidelines in each of these three referrals. However, OGC's files did not contain documentation of mitigating factors that would support the imposition of shorter suspensions in any of these three cases. Pursuant to FHFA's Records Management Policy, OGC should have documented its reasons for imposing shorter suspensions than those prescribed in FHFA's guidelines.¹⁵ The suspending official agreed to consider whether further elaboration about the reasons for imposing shorter sentences might be helpful in OGC's documentation of its suspension decisions.

Finally, OGC's records show that one of the three suspensions imposed for a shorter period than specified in the guidelines was based on a criminal conviction for covered misconduct that was imposed more than five years earlier. We asked the suspending official to explain the basis for this suspension in light of his representation that the final rule precluded suspensions for convictions imposed outside a three-year window. He advised that the suspension was imposed in error, but noted that FHFA could have acted under other authorities to preclude the regulated entities from transacting further business with this individual, assuming their fraud prevention programs did not cause them to decline to do so in the first place.

¹⁴ In the fourth case, OGC suspended an individual for a longer period than prescribed in the guidelines, but documented its reasons for doing so.

¹⁵ See FHFA, Records Management Policy (Jan. 23, 2015) (online at www.fhfa.gov/AboutUs/Policies/RIM%20Policies/FHFA%202017%20Records%20Management%20Policy.pdf).

FINDINGS AND CONCLUSION.....

FHFA established the SCP in 2012 to limit financial and reputational risks to the regulated entities by suspending individuals and businesses with a history of fraudulent conduct from doing business with those entities. However, we identified weaknesses in OGC’s administration of the SCP that impede the program’s ability to achieve its stated objective: protecting the regulated entities from individuals and businesses that have engaged in fraudulent conduct.

Specifically, we found that, since the SCP was established in 2012, OGC had amassed a backlog of 424 referrals as of December 31, 2016, some of which have awaited adjudication for up to four years. As referrals remain in OGC’s backlog, eventually, they may pass the critical three-year limit set by the regulation in its definition of “covered misconduct.” At that point, OGC loses the ability under the SCP to suspend the individuals and businesses in question from doing business with the regulated entities. We found five referrals in which this occurred. Thus, OGC lost its ability to suspend the individuals in question, all of whom were convicted of engaging in financial fraud. We also found that in three of the 24 referrals in which OGC imposed a suspension, it imposed a shorter term than specified in the guidelines and failed to document its reason for doing so in contravention of FHFA’s Records Management Policy.

RECOMMENDATIONS.....

OIG recommends that FHFA: (1) develop and implement a plan containing a timeliness standard by which to eliminate the current backlog of referrals and prevent future backlogs; and (2) document its reasons for any departures from the suspension periods prescribed in the guidelines.

FHFA COMMENTS AND OIG RESPONSE.....

We provided a draft of this report to FHFA for its review and comment. On July 27, 2017, FHFA’s General Counsel provided the Agency’s written comments, including its acceptance of both of our recommendations. The Agency’s comments are published verbatim in the appendix. FHFA also provided technical comments on a draft of this report, which we incorporated as appropriate.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this special project was to assess OGC’s administration of the SCP and determine whether the program is achieving its stated objective. We reviewed FHFA’s administration of the program from June 18, 2012, through December 31, 2016 (our review period).

To determine OGC’s standards, we reviewed its regulation, 2012 program manual, and December 2016 work procedures. We also reviewed its June 18, 2012, news release describing the program’s objective and its guidelines posted on the Agency’s public SCP website.

To understand the state of OGC’s processing of referrals as of December 31, 2016, we calculated the percentage of referrals OGC had not closed based on its closure status designation and evaluated the timeliness of OGC’s processing for the population of 738 referrals.¹⁶

To analyze OGC’s written justifications for its decisions not to suspend certain referrals, we reviewed the population of 265 referrals that OGC adjudicated but did not suspend. Of that population, we identified 25 referrals that met two criteria: (1) the referral source was OIG or the regulated entities, and (2) the referrals appeared eligible for suspension based on OGC’s records (i.e., had been convicted or sanctioned for mortgage-related fraud and had transacted business with the regulated entities).¹⁷ We reviewed OGC’s records underlying its determinations and interviewed the program manager to understand the reasons OGC cited for not suspending these 25 individuals. Within these 25 referrals, we inquired further about five instances where OGC’s suspension reason was inconsistent with its guidelines.

To determine whether OGC followed its guidelines, we compared FHFA’s suspension term to the sentence or sanction period (inclusive of supervised release) for each of the 24 counterparties FHFA has suspended.

Finally, we interviewed OGC personnel, and we reviewed other public and internal documents relating to SCP.

¹⁶ There were 771 referral entries in OGC’s records during our review period. We excluded 33 records from our analysis because OGC’s records flagged these items as duplicates, errors, or missing information. Therefore, we analyzed 738 referrals.

¹⁷ Regarding the criteria to transact business with the regulated entities, we selected referrals from OGC’s records that the regulated entities confirmed or provided no response regarding a matching business transaction.

We conducted our special project during the period January 2017 to April 2017 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Richard Parker, Deputy Inspector General for Compliance & Special Projects

FROM: Alfred Pollard, General Counsel *Alfred Pollard*

SUBJECT: OIG Report
FHFA Should Improve Its Administration of the Suspended Counterparty Program

DATE: July 27, 2017

This Memorandum transmits the management response of the Federal Housing Finance Agency (FHFA) to the FHFA OIG draft report referenced above (Report).

The Suspended Counterparty Program (SCP) is administered by the FHFA Office of General Counsel (OGC). In assisting the Office of Inspector General (OIG) in its review, FHFA OGC provided all documentary information and met several times with OIG Staff to discuss their questions and to respond to their perspectives.

FHFA management’s responses, agreeing to the FHFA OIG’s recommendations, are below:

Recommendation 1:

Develop and implement a plan containing a timeliness standard by which to eliminate the current backlog of referrals and prevent future backlogs.

Management Response to Recommendation 1:

Within the next six months, FHFA OGC will take appropriate action, with attention to due process, to accelerate the clearance of suspension referrals. This includes matters within OGC’s control such as streamlining time lines, and additional actions such as seeking assistance from referring parties in “prioritizing” referrals as to severity of conduct or other characteristics.

Recommendation 2:

Document its reasons for any departures from the suspension periods prescribed in the Guidelines.

Management Response to Recommendation 2:

Within the next six months, FHFA OGC will take appropriate action to provide additional information on suspension periods and mitigating factors relating to a particular determination. OGC notes that the FHFA Records Management Policy addresses retention of records not their content.

cc: John Major, Internal Controls and Audit Follow-up Manager
Larry Stauffer, Acting Chief Operating Officer

ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

- Call: 202-730-0880
- Fax: 202-318-0239
- Visit: www.fhfaoig.gov

To report potential fraud, waste, abuse, mismanagement, or any other kind of criminal or noncriminal misconduct relative to FHFA's programs or operations:

- Call: 1-800-793-7724
- Fax: 202-318-0358
- Visit: www.fhfaoig.gov/ReportFraud
- Write:

FHFA Office of Inspector General
Attn: Office of Investigations – Hotline
400 Seventh Street SW
Washington, DC 20219