



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2016, through March 31, 2017





# **FEDERAL HOUSING FINANCE AGENCY**

## **OFFICE OF INSPECTOR GENERAL**



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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, stakeholders, 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 government 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 in order to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust enforcement efforts to protect the interests of the American taxpayers.



# Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we strive to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they go, 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 risk-based, credible, 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 Federal Home Loan Banks in its role as regulator, and its operation of Fannie Mae and Freddie Mac in its role as conservator).

Because FHFA has been placed in the extraordinary role of regulator 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.fhfaig.gov/ReportFraud](http://www.fhfaig.gov/ReportFraud) or calling (800) 793-7724.





# Snapshot of OIG Accomplishments

## October 1, 2016–March 31, 2017

Dollar Impact	
Monetary Results from OIG Investigations	
Criminal Restitution	\$15,382,297
Criminal Fines/Special Assessments/Forfeitures	\$13,085,417
Civil Settlements/Fines	\$12,582,000,000
<b>INVESTIGATIONS TOTAL \$12,610,467,714</b>	
Monetary Results from OIG Reports	
Questioned Costs	\$24,200,000
<b>REPORTS TOTAL \$24,200,000</b>	

Investigative Activities and Accomplishments	
Indictments/Charges	71
Arrests	60
Convictions/Pleas	60
Sentencings	52
Suspension/Debarment Referrals	72

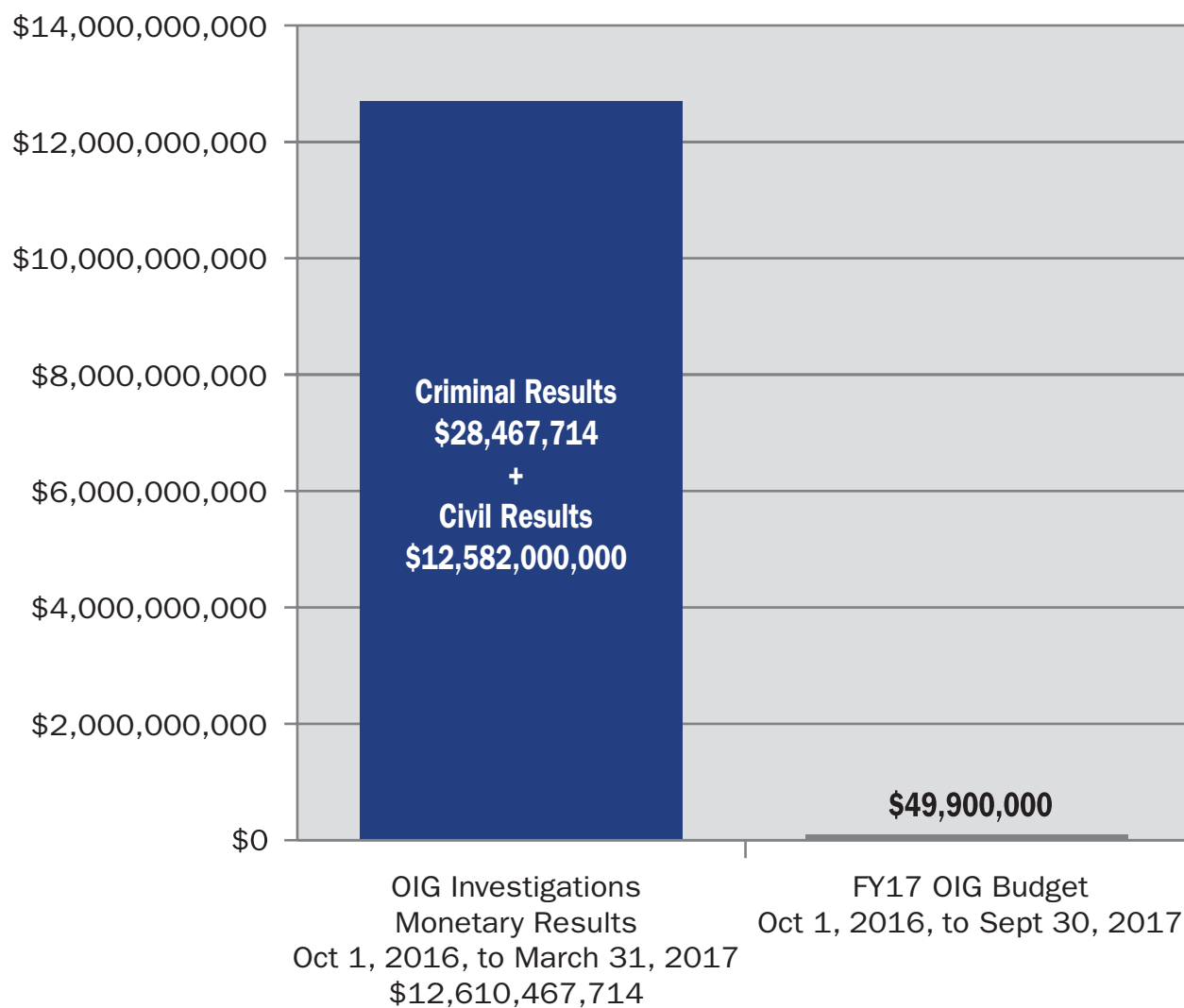
Reports
<b>TOTAL REPORTS ISSUED 14</b>
Includes audits, evaluations, compliance reports, special project reports, management alerts, and risk assessments
<b>TOTAL RECOMMENDATIONS MADE 15</b>

# OIG Investigations Monetary Results

October 1, 2016–March 31, 2017

**OIG's fiscal year 2017 (FY17)** budget is \$49.9 million. During this reporting period the monetary results as an outcome of OIG criminal and civil investigations are more than 252 times greater than the fiscal year budget, as demonstrated in Figure 1 (see below).

**Figure 1. OIG Criminal and Civil Investigations Monetary Results  
October 1, 2016, Through March 31, 2017, vs. FY17 OIG Budget**





# 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, 2016, to March 31, 2017.

Created by statute in July 2008, FHFA is charged with serving as regulator of the Enterprises and the FHLBanks. Additionally, in September 2008, FHFA placed the Enterprises in conservatorship and undertook the extraordinary dual role of supervisor and conservator. FHFA's conservatorships of the Enterprises, now in their ninth year, are of unprecedented scope, scale, and complexity. FHFA continues to serve in a unique role: it is both conservator and regulator of the Enterprises and regulator of the FHLBanks, and these dual roles present novel 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.

To best leverage our resources to strengthen OIG's oversight, our audit and evaluation efforts are risk-based. In this Semiannual Report, we provide a snapshot of the 14 reports—including audits, evaluations, compliance reviews, management alerts, special reports, and risk assessments—published during this reporting period. Our audit, evaluation, and compliance work during this reporting period centered on the four areas of the greatest financial, governance, and/or reputational risks to FHFA, the Enterprises in its conservatorship, and the entities it regulates. During the prior three semiannual periods, we published 12 reports examining different elements of FHFA's annual supervisory cycle of the Enterprises and identified significant deficiencies with each element. One of the reports we issued during this period was a synthesis of our findings in these 12 reports, titled *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises*. Among the other 13 reports issued during this period include our assessments of FHFA's oversight of Enterprise risk management relating to nonbank sellers and servicers, the costs to date incurred by the Enterprises in the development and implementation of the Common Securitization Platform, and FHFA's implementation of examiner rotation and examiner commission programs. Two of the 14 reports issued this period set forth our findings in two administrative investigations of hotline complaints, one involving alleged use of FHFA vehicles and employees in a manner inconsistent with law and regulation and the other involving a potential conflict of interest. These reports demonstrate the diversity and quality of our work during the past six months.



Laura S. Wertheimer  
Inspector General of the  
Federal Housing Finance Agency

OIG is also active in criminal investigations, recognizing that the best deterrent against mortgage and financial institutional fraud is a proactive and visible criminal law enforcement effort. Our Office of Investigations conducts vigorous investigations into a wide variety of potential fraud schemes. Working closely with prosecutors, we follow the evidence wherever it leads to develop sufficient evidence to prove the elements of a crime and hold those persons accountable who seek to prey on innocent victims and defraud the regulated entities. When we do not find evidence sufficient to refer the matter to prosecutors to consider bringing criminal charges, we examine whether the evidence supports civil claims. The quality of the investigations conducted during this period and the monetary results from OIG investigations described in this report demonstrate the importance of effective, fair, and objective investigative oversight conducted by OIG.

During this reporting period, OIG successfully conducted a number of investigations involving civil and criminal fraud, which resulted in significant criminal prosecutions and civil fraud enforcement, including:

- 71 indictments/charges;
- 60 convictions/pleas;
- 52 sentencings;
- More than \$28 million in criminal restitutions, fines, special assessments, and forfeitures; and
- Over \$12 billion in civil settlements and fines.

Through our written reports and our law enforcement efforts, both civilly and criminally, we hold institutions and their officials accountable for their actions or inactions. We continue to work diligently to be a catalyst for effective management, accountability, and positive change within FHFA and the Enterprises in its conservatorship.

Our achievements described in this Semiannual Report to the Congress would not be possible without the dedication and hard work of the professionals at OIG. I appreciate their exceptional commitment to OIG's important mission.

Laura S. Wertheimer  
Inspector General  
April 28, 2017



# 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 the newly created FHFA to serve as regulator of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Bank (FHLBank) System** (collectively, the **government-sponsored enterprises**, or the **GSEs**) and enhanced its resolution authority.

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 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 PSAs, U.S. taxpayers, through Treasury, have invested a total of \$187.5 billion into the Enterprises since 2008. As conservator of the Enterprises, FHFA succeeded to all rights and powers of any stockholder, officer, or director of the Enterprises and is authorized under HERA to:

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

Initially, conservatorship was intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their ninth 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 conservator and regulator of the Enterprises and regulator of the FHLBank System.

HERA also amended the **Inspector General Act of 1978** to establish an Office of Inspector General (OIG) within FHFA. OIG began operations on October 12, 2010, when its first Inspector General (IG) was sworn in. Because FHFA has acted as both regulator and conservator of the Enterprises since September 2008, OIG's responsibilities are correspondingly broader than those of an IG for any other prudential federal financial regulator because they include oversight of FHFA's actions as conservator in order to protect the U.S. taxpayers' investment of \$187.5 billion in the Enterprises.

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. We accomplish our mission by providing independent, relevant, timely, and transparent oversight in order to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust enforcement efforts to protect the interests of 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 2017, OIG's operating budget is \$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, 2016, to March 31, 2017. Among other things, it:

- Explains our risk-based oversight strategy;
- Discusses the 14 audits, evaluations, compliance reports, management alerts, special reports, and risk assessments published during the period;
- Provides highlights of some of the numerous OIG investigations that resulted in 71 indictments/charges, 60 convictions/pleas, and 52 sentencings against individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; more than \$28 million in criminal restitutions, fines, special assessments, and forfeitures; and over \$12 billion in civil settlements and fines;
- Summarizes our outreach during the period; and
- Reviews the status of OIG's audit, evaluation, and compliance recommendations.

**\*Terms and phrases in bold are defined in Appendix A, 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 of the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their ninth year, are of unprecedented scope, scale, and complexity. FHFA serves in a unique role: it is both conservator and supervisor of the Enterprises and regulator of the FHLBanks, and these dual roles present novel 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 in order 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 risk-based Audit and Evaluation Plan in February 2015, which has been updated annually.

An integral part of OIG's oversight is to identify and assess FHFA's management and performance challenges and to align its work with these challenges. In October 2016, we updated our assessment of FHFA's major management and performance challenges and briefly assessed its progress addressing those challenges. (See OIG, Fiscal Year 2017 Management and Performance Challenges (October 6, 2016), online at [www.fhfaoig.gov/Content/Files/FHFA%20management%20challenges%20FY2017.pdf](http://www.fhfaoig.gov/Content/Files/FHFA%20management%20challenges%20FY2017.pdf).)

Our current Audit and Evaluation Plan, adopted in March 2017, builds on the top management

and performance challenges facing FHFA for fiscal year 2017. (Our current Audit and Evaluation Plan is available at [www.fhfaoig.gov/Reports/AuditAndEvaluationPlan](http://www.fhfaoig.gov/Reports/AuditAndEvaluationPlan).) These challenges include:

- ***Conservatorship Operations.*** Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undetermined duration. Under HERA, the Agency's actions as conservator are not subject to judicial review or intervention, nor are they subject to procedural safeguards that are ordinarily applicable to regulatory activities such as rulemaking. 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 impact the entire mortgage finance industry. For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has determined to delegate revocable authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. Given the taxpayers' enormous investment in the Enterprises, the Enterprises' critical role in the secondary mortgage market, their unknown ability to sustain future profitability, and the unreviewability of FHFA's decisions by a court of law, OIG has determined that FHFA's administration of the conservatorships continues to be a critical risk. Our efforts should assist FHFA in improving the effective management of the conservatorships.
- ***Supervision of the Regulated Entities.*** As discussed earlier, FHFA plays a unique role as both conservator and regulator for the Enterprises and as regulator for the FHLBank System. FHFA has repeatedly stated that effective supervision

of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness, and we have determined that FHFA's administration of its supervision responsibilities continues to be a critical risk. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBank System, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. Based on our assessments of different elements of DER's supervision program, OIG has identified four recurring themes:

(1) FHFA lacks adequate assurance that DER's supervisory resources are devoted to examining the highest risks of the Enterprises; (2) many supervisory standards and guidance issued by FHFA and DER lack the rigor of those issued by other federal financial regulators; (3) the flexible and less prescriptive nature of many requirements and guidance promulgated by FHFA and DER has resulted in inconsistent supervisory practices; and (4) where clear requirements and guidance for specific elements of DER's supervisory program exist, DER examiners-in-charge and examiners have not consistently followed them.

- ***Counterparties and Third Parties.*** The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk—that is, the risk that the counterparty will not meet its contractual obligations. FHFA has delegated to the Enterprises the management of their relationships with counterparties, and FHFA reviews that management largely through its supervisory activities. One significant counterparty risk is the risk posed by loan originators and **servicers** that are not depository institutions (also called nonbanks). As participants in the mortgage market change, counterparties can affect the risks to be managed by Fannie Mae and Freddie

Mac. In recent years, the Enterprises' businesses have changed dramatically in terms of the types of institutions originating and selling mortgages to them and servicing mortgages on their behalf. Both Enterprises report that the share of Enterprise single-family loan purchases from depository institutions has fallen while the share of purchases from nonbanks has risen. We will continue our efforts to examine the adequacy of controls put into place by FHFA to manage counterparty and third-party risk.

- ***Information Technology Security.*** Systems security continues to be a preeminent issue for businesses and individuals alike. The regulated entities, like most modern institutions, rely on numerous, complex information technology (IT) systems to conduct almost every aspect of their work. These systems manage processes to **guarantee** and purchase loans, supporting more than \$5 trillion in Fannie Mae and Freddie Mac mortgage assets. Both Enterprises and the FHLBanks have been the subject of cyber attacks, although none caused significant harm. All of the entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their information systems may be vulnerable and penetration of their systems poses a material risk to their business operations. Further, the Enterprises are increasingly relying on third-party service providers, requiring the sharing of sensitive information between Enterprise and third-party systems. We plan to continue our efforts to assess the rigor of FHFA's oversight of the IT security systems and controls in place in the entities it regulates.

OIG focused much of its oversight during this reporting period (and during prior reporting periods) on identifying vulnerabilities in these areas, recommending positive, meaningful actions that the Agency could take to mitigate these risks, and fulfilling statutory mandates.



## OIG's Oversight Initiatives

In addition to adopting a risk-based strategy for OIG oversight, during the tenure of Inspector General Wertheimer, 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. Below are some highlights of our oversight initiatives.

### Roll-Up Reports

As discussed earlier, OIG has adopted a risk-based oversight strategy based on its identification of the four most significant financial, governance, and/or reputational risks to the Agency, the Enterprises, and the FHLBanks. One of the areas of significant risk OIG identified was the lack of rigor in FHFA's supervision program for the Enterprises. As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. OIG published 12 evaluation, audit, and compliance review reports between July 2015 and September 2016 in which we assessed different critical elements of DER's supervision program for the Enterprises. For each element that we assessed, we found shortcomings and recommended actions to improve DER's supervision. Our published reports set forth the facts, findings, conclusions, and recommendations on each of these critical elements. A listing of those reports is included on page 34. FHFA steadfastly maintains that its supervision of the Enterprises is effective and ensures their safe and sound operation.

During this reporting period, we issued a roll-up report in which we identified and discussed four recurring themes over the 12 evaluation, audit, and compliance review reports. (See OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's*

*Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016), online at [www.fhfa.oig.gov/Reports/AuditsAndEvaluations](http://www.fhfa.oig.gov/Reports/AuditsAndEvaluations).) As we explain in that report, our 12 reports on different critical elements of DER's supervision program for the Enterprises, when read together, call into question the effectiveness of FHFA's supervision program for the Enterprises. The purpose of this roll-up report is to provide FHFA management and OIG stakeholders with a summary of the shortcomings identified in our prior reports and to facilitate a better understanding of the critical need for FHFA to strengthen its supervision program for the Enterprises. A more complete discussion of this roll-up report appears on pages 19-23.

When the results of individual evaluation, audit, and compliance reviews suggest a recurring theme in an area of risk, OIG will publish a roll-up report to bring further attention to the matter and promote a better understanding of the need for action.

### Management Alerts

OIG uses management alerts to make FHFA aware of a significant matter requiring immediate attention and corrective action. During Inspector General Wertheimer's tenure, OIG has issued four alerts, three during this reporting period. The issues OIG identified relate to potentially excessive spending by Fannie Mae on the build-out of its newly leased space for its headquarters in Washington, D.C., and its offices in Plano, Texas; use of FHFA vehicles and employees in a manner inconsistent with law and regulation; and the adequacy of disclosures pertaining to a potential conflict of interest.

### Special Reports and Status Reports

In its role as supervisor of the Enterprises and the FHLBanks and as conservator of the Enterprises, FHFA serves in a unique role, and OIG has adapted its oversight program to accommodate the challenges

presented by FHFA's novel role. In addition to management alerts, OIG issues special reports and status reports to inform FHFA senior management, stakeholders, and the public at large of significant developments involving matters and issues previously identified and assessed by OIG. During this reporting period, OIG issued two special reports: one involving the costs to date incurred by the Enterprises in the development and implementation of the Common Securitization Platform and the other concerning FHFA's continuing implementation of its examiner commission program.

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

In December 2014, OIG created an Office of Compliance and Special Projects (OCom) to strengthen OIG's efforts to determine whether FHFA has fully implemented OIG recommendations and to undertake other special projects. Verification testing conducted by this office of FHFA's actual implementation efforts holds FHFA accountable for the corrective actions that it has agreed to undertake. OCom issues compliance review reports based upon its efforts to verify that FHFA has implemented the corrective actions it has agreed to undertake. In addition to holding FHFA accountable for implementing such corrective actions, OCom reports on whether its implementation efforts have corrected the shortcomings identified by OIG in its initial report. OCom's compliance reviews strengthen OIG's efforts to stimulate positive change in critical areas and promote the economy, efficiency, and effectiveness of FHFA. OIG has issued eight compliance reviews since December 2014.

OCom's first compliance review, published in 2015, assessed whether FHFA had fully implemented recommendations in a 2011 OIG evaluation that identified the need for FHFA to further develop and implement its Housing Finance Examiner (HFE) commission program and found that FHFA's HFE program was not on track to produce commissioned

examiners within the four-year projected completion period and also identified a number of other shortcomings with FHFA's implementation of its HFE program. We recommended that the Agency determine the causes of these weaknesses and develop and implement a strategy to ensure the HFE program fulfills its objectives. After FHFA asked OIG to close its recommendations from the 2015 compliance review, OCom assessed the status of FHFA's implementation of its corrective actions. That assessment found that although FHFA made considerable progress, more remains to be done to ensure that FHFA's HFE program gets on track to produce commissioned examiners. OIG declined to close its 2015 recommendation pending further actions by FHFA and published the results of its assessment in an update report.

OCom also conducts reviews and administrative investigations of hotline complaints alleging non-criminal misconduct.

### **Office of Risk Analysis**

Central to OIG's ability to vigorously oversee the Agency's programs and operations is our ability to identify and assess emerging risks and revise our work plan to accommodate them. To assist in executing this portion of OIG's mission, Inspector General Wertheimer established the Office of Risk Analysis (ORA). ORA employs data mining and quantitative analytics to identify, analyze, monitor, and prioritize emerging and ongoing risks. Its efforts enable OIG to strategically align and employ its resources against such risks and thereby fulfill our oversight responsibility. ORA issues white papers on emerging risks and its efforts inform the annual Management and Performance Challenges memorandum issued by OIG to FHFA.

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

OIG actively strives to fulfill its mission through audit, evaluation, and compliance projects, management alerts, and reports, and through investigations. In this section, OIG discusses its oversight activities through three of its operational offices: the Office of Audits, the Office of Evaluations, and the Office of Compliance and Special Projects.

## Office of Audits

The Office of Audits (OA) is tasked with designing and conducting independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. For example, the Federal Information Security Modernization Act of 2014 (FISMA) directs OIG annually to perform an independent evaluation of whether FHFA's and OIG's information security programs and practices meet FISMA's security requirements. OIG issued two audits during this reporting period in satisfaction of this statutory requirement.

Under the Inspector General Act, inspectors general are required to comply with the audit standards promulgated by the Comptroller General of the United States. OA performs its audits in accordance with these standards, which are known as generally accepted government auditing standards or GAGAS.

## Office of Evaluations

The Office of Evaluations (OE) conducts program and management assessments and makes recommendations for improvement where applicable. OE provides independent and objective reviews, studies, and analyses of FHFA's programs and operations. The **Inspector General Reform Act of 2008** requires that IGs adhere to the *Quality*

*Standards for Inspection and Evaluation* (Blue Book), issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the Blue Book.

## Office of Compliance and Special Projects

The Office of Compliance and Special Projects (OCom) addresses the reputational risk arising from the practical necessity of closing OIG recommendations based largely upon representations from the Agency. Pursuant to the Inspector General Act, IGs recommend remedial actions to correct shortcomings identified through reviews of agency programs and operations. When an agency accepts an IG recommendation and takes steps to begin implementation of the corrective action, the agency reports on its efforts to the IG and the IG typically relies on materials and representations from the agency to close the recommendation.

OCom is charged with several critical responsibilities. First, it consults with each division in the development of recommendations to ensure that such recommendations, if accepted and implemented, will be susceptible to follow-up verification testing. Second, it tracks, in real time, the status of all OIG recommendations, from issuance to closure to subsequent follow-up and testing. Third, it consults with each division prior to closure of a recommendation to facilitate application of a single standard across the office for closing recommendations. Last, it conducts verification testing on closed recommendations to verify independently whether FHFA has implemented in full the corrective actions it represented to OIG that it intended to take. The results of OCom's testing are published in compliance reviews.

OCom also undertakes special projects, which includes reviews and administrative investigations of hotline complaints alleging non-criminal misconduct and assessments of significant ongoing issues that, in OIG's view, require prompt attention from FHFA leadership. OCom performs its compliance reviews and special projects in accordance with the Blue Book.

Our Audit and Evaluation Plan identifies the four risk areas on which our audit, evaluation, and compliance projects have been focused. We now discuss our oversight activities during the reporting period, executed by OA, OE, and OCom, by risk area.

## Conservatorship Operations

When then-Secretary of the Treasury Henry Paulson announced the conservatorships in September 2008, he explained that they were meant to be a “time out” during which the Enterprises would be stabilized, enabling the “new Congress and the next Administration [to] decide what role government in general, and these entities in particular, should play in the housing market.”<sup>2</sup> The current FHFA Director has echoed that view, recognizing that conservatorship “cannot [and] should not be a permanent state” for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than taking them out, and the “time out” period for the conservatorships is now in its ninth year.

Earlier in conservatorship, the Enterprises required \$187.5 billion in financial investment from Treasury to avert their insolvency. Through December 2016, the Enterprises have paid to Treasury approximately \$255.8 billion in dividends on its investment. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the Enterprises have grown in size during

conservatorship, and, according to FHFA, their combined market share of newly issued **mortgage-backed securities (MBS)** is more than 65%. The Enterprises' combined total assets are approximately \$5.3 trillion and their combined debt exceeds \$5 trillion. Although market conditions have improved and the Enterprises have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge and keep; the future performance of their business segments; the elimination by 2018 of a capital cushion to buffer against losses; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards.<sup>3</sup>

As of this writing, the duration of the conservatorships is still unknown. In January 2017, now Treasury Secretary Mnuchin provided the following answer to the written question posed by Senator Hatch, “Do you agree with the views of many that the ‘time out’ on the GSEs ought to end, and Fannie and Freddie need to somehow be restructured or ended?”:

[T]he United States needs a comprehensive approach to its housing finance policy. With Fannie Mae and Freddie Mac both in conservatorship it is difficult to articulate their long-term role within our housing finance policy. Eight years passed since they entered conservatorship and there has been a significant recovery of housing prices across the country. So that lends itself to be a good time, in my view, to address the desired future state we seek for housing finance in our country.

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their



unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk.

### **Delegated Matter: Fannie Mae Dallas Regional Headquarters Project**

OIG conducted a review of an anonymous hotline complaint alleging, among other things, excessive spending on Fannie Mae's consolidation and relocation of its offices. Our review of the facts involving consolidation and relocation of Fannie Mae's offices in the Dallas metro area found a lack of oversight by FHFA as to the reasonableness of budgeted build-out costs for the project, and we questioned \$24.2 million in budgeted build-out costs for the building leased by Fannie Mae in Plano, Texas, for its consolidated offices in the Dallas metro area. (See OIG, *Fannie Mae Dallas Regional Headquarters Project* (OIG-2017-002, December 15, 2016), online at [www.fhfaoig.gov/Reports/ManagementAlerts](http://www.fhfaoig.gov/Reports/ManagementAlerts).)

In a management alert issued earlier in 2016 reporting on spending in connection with Fannie Mae's consolidation and relocation of its corporate headquarters in Washington, D.C., we questioned whether the anticipated efficiencies of features proposed by Fannie Mae for the build-out of its newly leased space warranted the cost of \$235.35 per square foot. Because FHFA had rescinded its delegated authority for this project, we recommended that FHFA increase its oversight for the D.C. project and determine whether the anticipated efficiencies of specific proposed features warranted the costs as well as whether the proposed features for leased space in a non-government building are appropriate for an entity in conservatorship.

We recognize that FHFA, as conservator, may delegate authority for certain actions to an entity in conservatorship. Here, FHFA, as conservator,

delegated to Fannie Mae the authority to consolidate and relocate its Dallas metro offices. Fannie Mae's presence in the Dallas metro area is significant: its Dallas metro offices are the second largest of the Fannie Mae offices and employ approximately 2,000 full-time employees and contractors. Fannie Mae determined to consolidate these offices and relocate to leased space in a new building in Plano, and its budget for the build-out of this leased space is \$234.02 per square foot. Although the cost of living in Plano is 31.3% lower than in the D.C. metro area, Fannie Mae's budgeted build-out of its leased space in Plano is virtually identical to its budgeted build-out costs of \$235.35 per square foot for its D.C. headquarters.

FHFA's delegation of authority does not relieve FHFA of responsibility to obtain adequate information to satisfy itself that Fannie Mae is properly exercising that delegated authority. We found that FHFA lacks any basis on which to determine whether Fannie Mae's current budget for its build-out costs in Plano is reasonable for an entity in conservatorship. The expert consultant retained by FHFA to assist in overseeing both Fannie Mae's build-out of its new headquarters in D.C. and its leased space in Plano questioned the basis for Fannie Mae's budgeted build-out costs for Plano, but was directed by FHFA to focus its attention on the build-out of Fannie Mae's D.C. corporate headquarters.

Absent review by FHFA, we believe that the same significant financial and reputational risks that we identified in connection with Fannie Mae's build-out of its headquarters space in D.C. attach to its build-out of its Plano space.

### **Delegated Matter: Update on Enterprise Efforts to Develop and Implement the Common Securitization Platform**

In 2012, FHFA, as conservator, directed Fannie Mae and Freddie Mac to build a Common



Securitization Platform (CSP or Platform). As originally envisioned by FHFA, the CSP was intended to provide a platform for multiple market participants to issue MBS in a future housing finance reform system that had yet to be defined. FHFA believed the Enterprises' back-office systems were "outmoded" and assumed that the cost to build the CSP and integrate the Enterprises' legacy financial and IT systems into the Platform would be less than the combined costs for the Enterprises to upgrade their back-office systems. In 2013, FHFA directed the Enterprises to establish and fund a joint venture, Common Securitization Solutions, LLC (CSS), to develop and ultimately operate the CSP.

In May 2014, after extensive discussion within FHFA and with the Enterprises, FHFA concluded that the many variables in the CSP project created extreme risks and determined to de-risk the project by breaking it down into smaller pieces. In its May 2014 Strategic Plan for the Conservatorships, FHFA clarified that the CSP's primary focus would be on supporting the Enterprises' current **securitization** activities, although the Platform would use standard industry technology and interfaces so that future market participants could connect to it. FHFA also announced three key goals of the conservatorships, one of which was to build a new infrastructure for the Enterprises' securitization functions and enable them to replace their separate MBS with a single, common security that would be issued and serviced via the CSP. According to FHFA, Enterprise issuance of a single common security through the CSP would improve liquidity in the housing finance system.

In a May 2014 evaluation report, we assessed the status of the CSP's development since 2012. Among other things, we found that, as of December 31, 2013, the Enterprises had spent a total of \$65 million on the CSP program. FHFA and the team building the CSP had constructed a Platform prototype, and associated software testing was

underway. We also found that FHFA had not adopted schedules and timelines for the completion of the project and lacked an estimate of the cost to complete the CSP project. We recommended that FHFA take steps to address these limitations in its oversight, and it agreed to do so. In June 2016, we closed our recommendations based on the corrective actions reported by FHFA.

### **FHFA Has Not Fully Met its Commitment to Be Transparent About CSP's Development**

When FHFA announced its revised goals for the CSP in May 2014, FHFA committed to be transparent in its development—a commitment the Agency reaffirmed on several occasions. From May 2014 through early July 2016, FHFA issued a number of public reports in which it discussed the status of the CSP's development.

In view of FHFA's repeated commitment to transparency about the development of the CSP, we reviewed these reports to assess the extent to which they disclosed information about the project's status. (See *OIG, Update on the Status of the Development of the Common Securitization Platform* (COM-2017-001, December 9, 2016), online at [www.fhfa.ig.gov/Reports/StatusReports](http://www.fhfa.ig.gov/Reports/StatusReports).) We found that FHFA had collected a significant amount of information on the actual and projected costs of the CSP from the Enterprises and had conducted regular assessments of the risks to successful completion of the CSP. In our view, FHFA has not disclosed this information, even at a high level, in its public reports.

- ***Actual and Projected Costs of the CSP.*** All of the costs associated with the development of the CSP have been, and will be, borne by the Enterprises. Since 2014, FHFA has collected data from the Enterprises on the costs to develop the CSP and the costs they have incurred to modify their legacy financial and information systems

to integrate them into the CSP. We found that FHFA only disclosed specific CSP cost data once in a September 2015 status report, and those reported costs totaled \$146 million to develop the actual Platform. We found that FHFA never reported the costs incurred by the Enterprises from 2012 through 2015 to integrate their legacy systems into the Platform, even though it had collected this data from the Enterprises. These unreported costs are substantially higher than the \$146 million reported by FHFA as the costs to develop the actual Platform.

- **CSP Software Development Risks.** FHFA reported publicly that the Enterprises and CSS were “making progress” in developing and testing the CSP’s software. FHFA has not disclosed that since 2014 it has internally rated the risks to the CSP’s successful development on a monthly basis. These internal reports identify elevated risks facing the CSP’s development, particularly related to integrating the Enterprises’ legacy systems with the Platform.

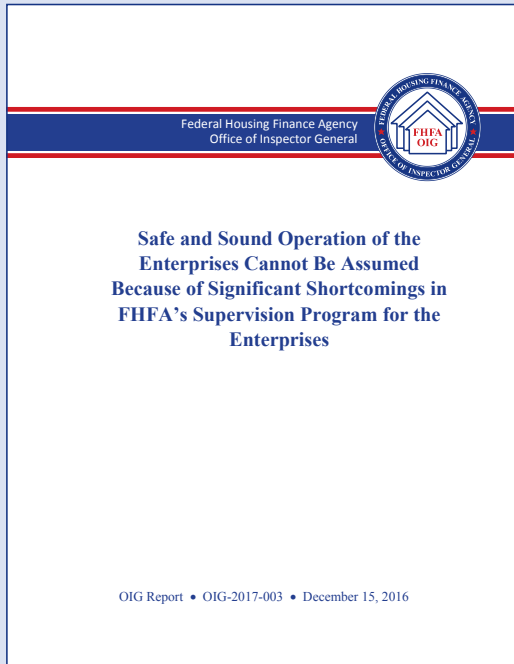
## Supervision of the Regulated Entities

As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. Within FHFA, DBR is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act requires each FHLBank to be examined at least annually. The exam function for the FHLBanks descends from the prior Federal Home Loan Bank Board, through the Federal Housing Finance Board, to FHFA. As a result, there is a long history of examination practice and examination standards for DBR to draw upon.

DER is responsible for supervision of the Enterprises. Section 1317 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, requires FHFA to conduct annual on-site examinations of each Enterprise (12 U.S.C. § 4517). FHFA’s annual examination program assesses Fannie Mae’s and Freddie Mac’s financial safety and soundness and overall risk management practices through ongoing monitoring, targeted examinations, and risk assessments. Prior to the creation of FHFA, the Enterprises were regulated by the Office of Federal Housing Enterprise Oversight (OFHEO), and OFHEO’s first examination took place in 1994. In its *Fiscal Year 2014 Performance and Accountability Report* to Congress, FHFA stated, “[to] ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition.”

During this reporting period we continued our assessment of DER’s supervision of the Enterprises. Between July 2015 and September 2016, OIG published 12 evaluation, audit, and compliance review reports in which we assessed different critical elements of DER’s supervision program for the Enterprises. During this reporting period, we issued a roll-up report in which we identified and discussed four recurring themes over the 12 evaluation, audit, and compliance review reports. (See OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA’s Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016), online at [www.fhfaig.gov/Reports/AuditsAndEvaluations](http://www.fhfaig.gov/Reports/AuditsAndEvaluations).) As discussed below, our evaluation, audit, and compliance review reports, when read together, call into question the effectiveness of FHFA’s supervision program for the Enterprises.

## Supervision of the Enterprises: Summary of Roll-Up of Recent OIG Reports on FHFA's Supervision Program for the Enterprises



In the 2015 and 2016 OIG Audit and Evaluation Plans, we explained our intent to focus our resources on programs and operations that pose the greatest financial, governance, and reputational risk to FHFA, the Enterprises, and the FHLBanks. One of the areas of significant risk we identified was FHFA's rigor in its supervision of the Enterprises and the FHLBanks. As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. OIG published 12 evaluation, audit, and compliance review reports between July 2015 and September 2016 in which we assessed different critical elements of DER's supervision program for the Enterprises. These elements included:

- DER's assessment of risks at the Enterprises and documentation of those risks in semiannual risk assessments;
- DER's plan for each annual supervisory cycle, based on the results of its risk assessments, and risk-related changes and updates to that plan;
- DER's planned examination procedures for its supervisory activities, which are designed to identify the objectives of the activity and describe the examination steps to be performed, including sampling and testing;
- DER's communication of its findings from its supervisory activities, including its supervisory concerns, to each Enterprise's board of directors;
- DER's follow-up on efforts by each Enterprise to correct identified deficiencies throughout the remediation period to ensure that remediation is timely and adequate; and
- DER's communication of its examination conclusions, findings, and composite/component examination ratings after the end of each annual supervisory cycle to each Enterprise board of directors in a written Report of Examination (ROE).

For each element that we assessed, we found shortcomings and recommended actions to address these shortcomings and upgrade DER's supervisory activities. We published reports setting forth the facts, findings, conclusions, and recommendations on each of these critical elements. FHFA steadfastly maintains that its supervision of the Enterprises is effective and ensures their safe and sound operation. In our view, our evaluation, audit, and compliance review reports, when read together, call into question the effectiveness of FHFA's supervision program for the Enterprises.

Based on our assessments of different elements of DER's supervision program, we identified four recurring themes and published a roll-up identifying and discussing the themes we identified in the course of our reports. (See OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016), online at [www.fhfa.gov/Reports/AuditsAndEvaluations](http://www.fhfa.gov/Reports/AuditsAndEvaluations).) In that roll-up, we discuss each of the following themes:

**1. FHFA lacks adequate assurance that DER's supervisory resources are devoted to examining the highest risks of the Enterprises.**

Among our findings was that FHFA had difficulty completing its planned targeted examinations over four supervisory cycles from 2012 through 2015 and that the number of targeted examinations planned and completed during each supervisory cycle has fallen since 2012 for Freddie Mac and has diminished significantly for Fannie Mae. We found that DER did not conduct more than half of the targeted examinations it planned for Fannie Mae between 2012 and 2015 and did not conduct slightly less than half of the targeted examinations it planned for Freddie Mac for that same period. We also found that no targeted examinations of Fannie Mae planned for the 2015 supervisory cycle were completed before the annual ROE was issued.

In addition, DER's practices for assessing Enterprise risks called into question the utility of the risk assessments and the basis on which priorities are assigned to planned targeted examinations. Almost half of DER's planned high-priority targeted examinations for 2014 and 2015 could not be traced to underlying risk assessments, and none of the risk assessments supported the priority assigned to planned targeted examinations. Further, DER failed to implement its commission program to develop a corps of commissioned examiners with the necessary technical competencies and practical examination experience to lead risk-based examinations.

**2. Many supervisory standards and guidance issued by FHFA and DER lack the rigor of those issued by other federal financial regulators.**

FHFA's statutory supervisory obligations are similar to the obligations imposed on the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), and the Federal Deposit Insurance Corporation (FDIC), and FHFA has been afforded the same legal privileges as federal banking regulators. We found, however, that FHFA's requirements and guidance are less prescriptive and more flexible than the other federal financial regulators for a number of elements of DER's supervision program. FHFA has offered no reason to explain why its requirements and guidance should be less robust than those of its peer regulators. FHFA has consistently rejected our recommendations to revise its requirements and guidance to align them with those adopted by other federal financial regulators.

**3. The flexible and less prescriptive nature of many requirements and guidance promulgated by FHFA and DER has resulted in inconsistent supervisory practices.**

The determination by FHFA and DER to refrain from adoption of defined requirements and comprehensive standards for structuring and communicating ROEs, preparing risk assessments, and following up on Enterprise correction of identified deficiencies leaves the execution of these elements to the discretion of the examiners-in-charge (EICs) and examiners. We found that exercise of discretion has resulted in a lack of consistency in supervisory practices for these elements.

**4. Where clear requirements and guidance for specific elements of DER's supervisory program exist, DER EICs and examiners have not consistently followed them.**

Our assessments found that DER EICs and examiners, in contravention of requirements issued by FHFA and DER: revised supervisory plans without risk-related reasons; failed to create and maintain complete supervisory documentation in the official system of records; failed to ensure issuance of the annual ROEs to Enterprise directors and obtain written affirmations that supervisory concerns will be addressed; and did not consistently conduct and document independent assessments of the Enterprises' remediation activities during the period of ongoing remediation. Further, DER did not establish a comprehensive quality control review process for examinations over a four-year period, including two years in which the Division was required to do so by Agency directive. Taken together, these practices demonstrate a lack of commitment to follow established requirements.



Although FHFA asserted in its management responses that it was generally receptive toward our recommendations, it rejected a number of them and did not propose alternative corrective actions for most of the recommendations it rejected. Given FHFA's disagreement with a number of our recommendations to correct shortcomings identified in our reports as well as its unwillingness to propose alternative corrective actions, it was our view that these elements of DER's supervisory program remained deficient. It remains to be seen whether the corrective actions that FHFA has agreed to take to address other shortcomings identified by us will, in fact, be implemented effectively.

Together, the Enterprises own or guarantee approximately \$5 trillion in mortgages and are among the largest financial institutions in this country. Should either or both Enterprises sustain losses in the future that exceed their decreasing capital reserves, the Treasury—and the American taxpayers—will be on the hook for those losses. Pursuant to HERA, FHFA is charged with ensuring the safety and soundness of the Enterprises. Without prompt and robust Agency attention to address the shortcomings we have identified, we cautioned stakeholders that the safe and sound operation of the Enterprises could not be assumed from FHFA's supervisory program.

Other regulators have sought the assistance of independent third parties in assessing the effectiveness of their supervision programs. In 1997 and again in 2009, the Federal Reserve Bank of New York retained an outside independent expert to assess the effectiveness of its supervisory procedures and its internal processes to understand and foresee systemic problems and undertook internal initiatives to improve its practices and procedures. In 2013, the OCC asked a team of international regulators to provide an independent perspective on the OCC's approach to the supervision of large and midsize banks and thrifts and, based on that team's recommendations, the OCC reorganized its supervision programs and instituted practices designed to foster better communication and assessment of risks, among other things. FHFA has acknowledged that it considers the guidance and examination practices of its peer financial regulators when developing its own guidance and requirements. In view of FHFA's unwillingness to accept a number of OIG recommendations to address shortcomings in critical elements of DER's supervision program, we concluded that it would be prudent for FHFA to follow the lead of the Federal Reserve Bank of New York and the OCC and engage independent external experts to review different critical elements of DER's supervision program.

The Agency stated that it would continue to pursue the corrective actions to which it previously agreed and consider additional ways to make its supervision program more effective and efficient. According to FHFA, it previously agreed to accept and implement 83% of the recommended corrective actions in the 12 referenced reports. We note, by way of clarification, that FHFA, in its response, overstated the rate of its acceptance of recommendations in these reports. Our review of FHFA's prior responses found that FHFA accepted only 64% of OIG's recommended remedial measures, partially agreed with 17%, and rejected outright 19%.

OIG Reports Contributing to Supervision Roll-Up Report	
<i>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</i>	<a href="#">AUD-2016-006</a>
<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</i>	<a href="#">AUD-2016-007</a>
<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i>	<a href="#">AUD-2016-005</a>
<i>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</i>	<a href="#">EVL-2016-009</a>
<i>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</i>	<a href="#">EVL-2016-008</a>
<i>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</i>	<a href="#">EVL-2016-007</a>
<i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i>	<a href="#">EVL-2016-005</a>
<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i>	<a href="#">EVL-2016-004</a>
<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i>	<a href="#">EVL-2016-003</a>
<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</i>	<a href="#">EVL-2016-001</a>
<i>Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations</i>	<a href="#">EVL-2015-007</a>
<i>OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</i>	<a href="#">COM-2015-001</a>

## Supervision of the GSEs: FHFA's Practice for Rotation of its Examiners

According to FHFA, its supervisory authority over its regulated entities “is virtually identical to—and clearly modeled on—Federal bank regulators’ supervision of banks.” Federal bank regulators recognize that effective supervision of a bank requires examiner independence. One control used by federal financial regulators to achieve examiner independence is mandatory rotation of certain examiners among supervised entities. Federal financial regulators also recognize other benefits from examiner rotation, such as enhancing examiners’ professional and leadership skills and improving their ability to conduct comparisons among institutions and apply regulatory standards consistently.

In this evaluation, we reviewed the rotation policies and/or practices of the OCC, the Federal Reserve, and the FDIC and compared them to the rotation policies and practices of DBR and DER. (See OIG, *FHFA’s Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions* (EVL-2017-004, March 28, 2017), online at [www.fhfaig.gov/Reports/AuditsAndEvaluations](http://www.fhfaig.gov/Reports/AuditsAndEvaluations).)

We found that the OCC, the Federal Reserve, and the FDIC have recognized the benefits of examiner rotation and have adopted written policies and/or practices requiring examiner rotation. Former FHFA leadership acknowledged the benefits of examiner rotation but left implementation to DBR and DER.

DBR officials reported to us that, at least since January 2013, DBR has an established practice of rotating all of its examination teams every four years and communicates the reasons for its rotation practice and specific rotation assignments annually. DBR has created and maintained records of examiner assignments and reassignments during

this period. Our testing of DBR’s records found that, from January 2013 through December 2016 (review period), DBR followed its examiner rotation practice. Based on our review of DBR records, we determined that each of the 11 FHLBanks was assigned a different associate director, a different EIC, and a different examination team at least every four years.

The Deputy Director of DER acknowledged to DER staff in a November 2015 email that “[r]egular rotation of on-site examination staff is a best practice of supervisory agencies.” In that same email, the Deputy Director announced the rotation of the EICs of the examination teams for the Enterprises and committed that DER intended to adopt “meaningful” examiner rotation.

A senior DER official recalled to us that DER has rotated staff on its examination teams since the fall of 2012. In May 2016, the Deputy Director of DER reported to us that DER has an informal rotation process.

To verify those recollections, we sought documentation from DER to show its efforts to track examiner assignments over time or evidence of an examiner rotation practice, informal or otherwise. DER provided no such materials, apart from the November 2015 email from the Deputy Director, internal organization charts, staffing spreadsheets, and a number of internal and public announcements of organization changes. A DER official reported to us that DER maintained no records of examiner assignments and reassignments or the period of time examiners have been assigned to a particular Enterprise or specific risk area, and had not created or maintained records to track examiner assignments over time, and no documentation was produced to us by DER showing that it systematically tracked examiner assignments over the review period.

However, DER maintained to us that DER management was aware of its movement of examiners through its review and approval of staffing assignments and reassignments during the review period and that information about examiner assignments could be found in the personnel records for each examiner and in emails. No claim was made by DER that its management reviews the personnel records for each examiner and associated emails when it considers assignments and reassignments, and it did not produce such materials to us in response to our request for materials evidencing examiner rotation. We found no evidence that DER has systematically tracked the length of time each examiner has been assigned to a particular Enterprise or risk area.

Because we were not able to readily verify statements from DER leadership that informal examiner rotation had occurred within DER, and in light of DBR's demonstrated practice of rotating its examiners every four years and DER's acknowledgment that regular rotation of examination staff is a "best practice," we sought to determine what practice, if any, had been followed within DER to rotate examiners between the two Enterprises and risk areas during the review period from the materials provided to us by DER.

From these materials, we traced examiner assignments to determine how many DER examiners: (1) had been assigned to a particular Enterprise or risk area for the entire review period and (2) had been rotated between the Enterprises during the review period. Our review of these DER materials found that 28 employees were assigned to DER throughout the review period, although not all served as examiners throughout the entire period. Of those 28, we found:

- 14 were assigned to examine the same Enterprise and same risk area for the entire review period (50%);

- 8 were assigned to examine the same Enterprise but not the same risk area for the entire review period (29%);
- 4 were assigned to non-examination work for some parts of the review period but otherwise were assigned to examine the same Enterprise during the review period (14%); and
- 2 were rotated between the Enterprises as examiners during the review period (7%).

We also found that 22 of the 28—79%—examined only one Enterprise during the entire review period.

DER's lack of easily accessible and reliable data on examiner assignments over time limits its capacity to make reasoned and effective management decisions about examination resources. Sixteen months after the Deputy Director of DER announced the rotation of EICs and pledged to adopt "meaningful" examiner rotation, we found no evidence, based on our review of DER documents and communications with DER officials, that DER has implemented its pledge of "meaningful" examiner rotation.

DER agreed to our recommendation to develop, communicate to DER examination staff, and implement an examiner rotation practice or policy that explains the timeframe for examiner rotation, whether examiners would be rotated across or within Enterprises, and which types of examiners, in addition to the EICs, would be subject to the rotation practice or policy. DER plans to develop internal guidance on rotation of EICs and examination managers by March 1, 2018. DER also agreed to our recommendation to implement a mechanism for tracking DER examiner assignments over time by Enterprise and risk area to facilitate implementation of its examiner rotation practice or policy.

## **Supervision of the GSEs: Update on FHFA's Housing Finance Examiner Commission Program**

FHFA has safety and soundness oversight responsibility for Fannie Mae, Freddie Mac, and the FHLBanks. FHFA's oversight responsibilities are critical because, among other things, the Enterprises own or guarantee approximately \$5 trillion in mortgage assets. Should either or both Enterprises sustain losses that exceed their decreasing capital reserves, Treasury, and hence taxpayers, will be responsible for their losses.

Since 2011, FHFA has publicly acknowledged the need for a commissioned examiner program to provide classroom and on-the-job training to examiners to further their development of technical competencies and practical examination experience. According to FHFA, commissioned examiners have the skills and technical knowledge necessary to lead the examination of a major risk area at an entity supervised by FHFA. In an evaluation issued in September 2011 reporting on the Agency's examination capacity, OIG found that only about one-third of FHFA's examiners—roughly 40—were commissioned, in that they received commissions from other federal or state regulators prior to their employment with the Agency. At that time, FHFA acknowledged that its relative lack of commissioned examiners impeded the efficiency and effectiveness of its supervision program.

In June 2013, FHFA established its HFE commission program, consisting of on-the-job training, course requirements, and a final examination. When it rolled out the HFE commission program, FHFA advised its employees, in an internal communication, that it would take approximately four years to complete.

Roughly two years later, we assessed FHFA's administration of the HFE program from August

2013 to March 2015. We found that the HFE program was not on track to produce commissioned examiners within the four-year projected completion period because many enrollees were not completing their on-the-job training and course requirements. We also identified a number of other shortcomings with FHFA's implementation of the HFE program. We recommended that the Agency determine the causes of these weaknesses and develop and implement a strategy to ensure the HFE program fulfills its objectives.

FHFA agreed with our recommendation and committed to implementing five corrective actions to resolve the problems we identified. In December 2015, FHFA submitted documentation to OIG indicating that it had completed the implementation of the five corrective actions. We conducted this review to assess the status of FHFA's implementation of its corrective actions. (See OIG, *Update on FHFA's Implementation of its Housing Finance Examiner Commission Program* (COM-2017-003, March 22, 2017), online at [www.fhfaoig.gov/Reports/StatusReports](http://www.fhfaoig.gov/Reports/StatusReports).) We found that FHFA implemented four of the five corrective actions. While considerable progress has been made to implement the fifth corrective action, more remains to be done to ensure that FHFA's HFE program gets on track to produce commissioned examiners. In addition, FHFA has not completed development of a final examination for the HFE program, which precludes any enrollee from earning an HFE commission through completion of the program.

We will hold open our 2015 recommendation pending action on FHFA's part to implement the fifth corrective action as it committed to do, complete the HFE examination, and otherwise take steps to demonstrate that the HFE program can produce, and is producing, commissioned examiners.



## Supervision of the GSEs: FHFA's Reporting to Congress About Remediation of Serious Deficiencies by the GSEs

The Government Performance and Results Act of 1993, as amended by the GPRA Modernization Act of 2010, (GPRA) requires FHFA (and other federal agencies) to establish strategic plans, develop performance goals aligned with those strategic plans, and set performance indicators to measure whether those goals are met. Pursuant to GPRA, each federal agency must report, after the end of each fiscal year, whether it has met its performance goals.

To meet its GPRA obligations for fiscal year 2015, FHFA established three strategic goals and identified three performance goals for each strategic goal. For its first strategic goal, “Ensure Safe and Sound Regulated Entities,” FHFA set three performance goals tied to its supervisory activities: “assess the safety and soundness of regulated entity operations;” “identify risks to the regulated entities and set expectations for strong risk management;” and “require timely remediation of risk management weaknesses.” Risk management weaknesses, and other deficiencies, at a regulated entity are identified by FHFA during its supervisory activities. When FHFA finds a risk management weakness or other deficiency, it will classify the weakness or other deficiency as a Matter Requiring Attention (MRA), a violation, or a recommendation. At the time of our work on this report, FHFA reserved MRAs for “the most serious supervisory matters” that required “prompt remediation” by the affected regulated entity.<sup>4</sup>

For fiscal year 2015, FHFA determined that it would measure success in achieving its stated performance goal—“require timely remediation of risk management weaknesses”—by measuring whether its “[r]egulated entities complete remedial action for MRAs within agreed upon timeframes.” The Agency established a 90% target for this performance

measure. FHFA sought uniform criteria to be used by DBR and DER to measure performance during fiscal year 2015. According to FHFA's Performance and Accountability Report (PAR) for fiscal year 2015, published in November 2015, its regulated entities exceeded this target during fiscal year 2015: the “FHLBanks reported a 97% compliance rate and Fannie Mae and Freddie Mac both reported a 100% compliance rate.”

In the past, we have issued several reports regarding FHFA's oversight of the Enterprises' remediation of MRAs in which we identified a number of shortcomings. In light of the outstanding performance results for this performance measure reported by FHFA in its 2015 PAR, we undertook this evaluation to assess FHFA's bases for those reported results. (See OIG, *FHFA's Use of Inconsistent Criteria Materially Affected its Reporting of Remediation of Serious Deficiencies in its 2015 Performance and Accountability Report* (EVL-2017-001, November 9, 2016), online at [www.fhfa.ig.gov/Reports/AuditsAndEvaluations](http://www.fhfa.ig.gov/Reports/AuditsAndEvaluations).)

Contrary to FHFA's expectations, we found that DER and DBR used different criteria to calculate compliance rates, which materially affected the reported compliance rates. Moreover, DER and DBR did not fully disclose their differing criteria to the FHFA office responsible for coordinating the development and publication of the PAR—the Office of Budget and Financial Management. Within DBR, senior officials were vested with complete discretion to determine whether 20 of 80 MRAs were “on track” or “off track” to meet agreed-upon timetables and exercised that discretion to find that 17 of the 20 were “on track.” Absent the exercise of such discretion, DBR could have reported a compliance rate as low as 75%. From our review of internal documents and interviews with DER officials, it appears that DER initially set out to report on all MRAs open during fiscal year 2015, as DBR did. However, DER developed no

methodology during the year to capture the data to calculate a compliance rate. When asked by FHFA several weeks after the close of fiscal year 2015 to report a compliance rate for this performance measure for the 2015 PAR, DER determined that it would report only on those MRAs it closed during fiscal year 2015—or only 29% of the total MRAs open at one point during fiscal year 2015. As a consequence, DER reported a 100% compliance rate.

GPRA requires each federal agency to report any limitations to data it reports, including inconsistencies with data collection procedures. Because the Office of Budget and Financial Management was not made aware of the different criteria used by DER and DBR, it did not report the inconsistencies with internal data collection procedures nor did it qualify or otherwise caveat FHFA's reported compliance rates in the PAR for this performance measure.

### **Supervision of the Enterprises: Freddie Mac's Reporting About Remediation of Serious Deficiencies to its Board**

During the period, we closed an evaluation of the MRA-related information provided by the management of Freddie Mac to the Freddie Mac board of directors from March 2013 to September 2016. We commenced this evaluation as a follow-up to an OIG report issued in March 2016. (See OIG, *FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate* (EVL-2016-005, March 31, 2016), online at [www.fhfaoig.gov/Reports/AuditsAndEvaluations](http://www.fhfaoig.gov/Reports/AuditsAndEvaluations).) In that report, we found that FHFA relied on the management of the Enterprises to communicate information about FHFA's most serious supervisory findings, MRAs, to the Enterprises' respective boards. We noted that

FHFA's practice was inconsistent with the guidance issued by other federal financial regulators and created the risk that Enterprise management, whose actions or inactions gave rise to the MRAs, would filter the MRA-related information it provided to the board, which could constrain the board's ability to oversee MRA remediation.

In this follow-up evaluation, we reviewed Freddie Mac management's reporting on MRAs to the Freddie Mac board. (See OIG, *Directives from the Audit Committee of the Freddie Mac Board of Directors Caused Management to Improve its Reporting about Remediation of Serious Deficiencies from October 2015 through September 2016* (ESR-2017-003, March 22, 2017), online at [www.fhfaoig.gov/Reports/AuditsAndEvaluations](http://www.fhfaoig.gov/Reports/AuditsAndEvaluations).) We found that from March 2013 through September 2015, Freddie Mac management provided the Freddie Mac board with quarterly remediation reports in which information about MRAs was pooled with information about other deficient, unsafe, or unsound practices giving rise to supervisory concern, making it quite difficult, if not impossible, for the board to identify the most serious supervisory matters and to oversee management's progress in remediating those deficiencies.

In October 2015, the same month we initiated our prior evaluation, the Audit Committee of Freddie Mac's board of directors asked management to include an itemized list of deficiencies in the quarterly remediation report, allowing that committee to distinguish MRAs from other audit concerns. The first remediation report to include that list, presented to the Audit Committee in December 2015, contained a brief description of each deficiency, its remediation deadline, and its most recent status. At the request of the Audit Committee of the Freddie Mac board, and after FHFA received a draft of our March 2016 evaluation, Freddie Mac

management began providing the Audit Committee with a standalone MRA report on a quarterly basis, beginning in June 2016. The two MRA reports that we reviewed (June and September 2016), which focused only on MRAs issued by FHFA to Freddie Mac, provided the committee with detailed MRA-specific information isolated from other Enterprise audit deficiencies for the first time. Both of these reports contained an itemized list of open MRAs, which included a brief description of each MRA, its remediation deadline, and its most recent status. Both reports also contained a section titled “Performance” that identified remediation delays and MRAs at risk of missing a remediation target date. We found no evidence that Freddie Mac management provided its remediation plan for each MRA to the Audit Committee to enable the committee to track management’s actual remedial progress against its plan.

After we completed our fieldwork and after management began providing the Audit Committee with the requested MRA-specific remediation reports, FHFA issued an advisory bulletin on “Internal Audit Governance and Function” to provide “an additional level of detail on the responsibilities of [regulated entities’] audit committees in their oversight of the [internal audit] function.” The advisory bulletin sets forth FHFA’s supervisory expectation that each Enterprise’s Audit Committee “regularly receive clear, timely, and detailed reports” on all open deficiencies, including MRAs, from each Enterprise’s Internal Audit division to assist the committee in its oversight responsibilities.<sup>5</sup>

The closing memorandum is intended to promote the Agency’s efficient supervision of Enterprise remediation of supervisory deficiencies. We intend to monitor developments on this issue.

## **Supervision of the FHLBanks: Compliance Review of FHLBank Fraud Reporting to FHFA**

FHFA is responsible for ensuring the safety and soundness of its regulated entities, which include 11 regional FHLBanks. The FHLBanks loan funds to member financial institutions to finance housing, economic development, infrastructure, and jobs.

During the course of a criminal investigation in 2014, OIG’s Office of Investigations (OI) determined that one of the FHLBanks delayed reporting fraud and employee misconduct to FHFA. OI also found that FHFA’s policy and related guidance in effect at that time did not explicitly require FHLBanks to notify the Agency of potential fraud and employee misconduct. Consequently, on June 27, 2014, OI recommended to FHFA that it amend its policy to require FHLBanks to report, among other things, fraud and employee misconduct to FHFA.

FHFA’s DBR agreed with OI’s written recommendation. In its management response dated July 28, 2014, the Deputy Director for DBR committed to align his division’s standards for reporting employee misconduct or insider fraud with those of other federal financial regulators by January 15, 2015. On February 12, 2015, DBR issued Advisory Bulletin 2015-01, *FHLBank Fraud Reporting* (AB 2015-01). As set forth below, AB 2015-01 establishes the following guidelines and deadlines for the 11 FHLBanks:

- Notify DBR within one calendar day of fraud or possible fraud that is “significant,” which AB 2015-01 defines as that “which may affect the integrity of or public confidence in the FHLBank or the U.S. Government.”
- Notify DBR on the day of the filing of a Suspicious Activity Report (SAR) with Treasury’s Financial Crimes Enforcement Network

(FinCEN). A SAR provides information to FinCEN involving known or suspected criminal offenses or financial transactions of at least \$5,000 that financial institutions—such as FHLBanks—suspect involve money laundering or violate relevant statutes.

- Report fraudulent activity to DBR via the Cumulative Quarterly Status Report within 10 calendar days after quarter-end. The FHLBanks summarize previously submitted immediate notifications and SAR filings in this quarterly report.
- Designate an employee as a fraud officer and submit an Annual Conformance Report by September 30 of the respective year. The annual report primarily describes an FHLBank's fraud policies, procedures, **internal controls**, and training as well as the FHLBank's efforts to remediate serious fraud-related deficiencies identified during DBR examinations.

OI deemed DBR's actions to be responsive to its recommendation and considered the recommendation closed as of February 20, 2015.

The Deputy Director of DBR reported to us that our recommendation identified a weakness in prior guidance and that DBR's adoption of our recommendation strengthened the FHLBanks' fraud reporting and notified DBR of fraud that previously would have been unreported. In his view, this additional reporting has enhanced DBR's oversight of the FHLBanks.

In this compliance review, we determined that the FHLBanks generally complied with the four requirements in AB 2015-01. (See OIG, *Compliance Review of Federal Home Loan Bank Fraud Reporting to FHFA* (COM-2017-002, January 24, 2017), online at [www.fhfa.gov/Reports/Compliance\\_Reviews](http://www.fhfa.gov/Reports/Compliance_Reviews).) Through our testing, we found that the FHLBanks submitted (with marginal

exceptions) the immediate notifications, SAR filing notifications, quarterly reports, and annual reports by the required deadlines. We determined that each FHLBank designated an employee responsible for reporting fraud and each described in its annual report fraud-related policies, procedures, training, and serious deficiency remediation efforts. Based on our compliance testing, we concluded that the FHLBanks successfully implemented AB 2015-01.

## Counterparties and Third Parties

### Enterprise Compliance with Advisory Bulletins Related to Nonbank Sellers and Servicers

The Enterprises carry out their statutory mission to provide stability and liquidity to the secondary mortgage market by, in large part, purchasing mortgage loans from banks and other lenders that originate them. The Enterprises did not originate and do not service the over \$5 trillion in loans they hold or are exposed to in MBS. Instead, the Enterprises rely upon third parties for loan origination and servicing, according to standards and guidelines set by the Enterprises.

Since 2010, the role of nonbanks—non-depository firms unaffiliated with commercial banks—in selling and servicing single-family mortgages has increased dramatically. While nonbanks originated less than 10% of the mortgages purchased by the Enterprises in 2010, the nonbank share of mortgages purchased in 2015 increased to almost 50%. On the servicing side, the nonbank share of mortgages held by the Enterprises saw similar growth, increasing five-fold between 2010 and 2015 from 7% to almost 35%.

The increase in nonbank sellers and servicers has yielded increased risk. Between 2012 and 2016, both the Enterprises and FHFA have acknowledged several risk factors associated with nonbank seller/



servicers, including the lack of a federal prudential regulator, potential liquidity and financial strength issues, and operational problems caused by rapidly expanding servicing portfolios and the higher costs associated with servicing delinquent loans. In the 2016 OIG Audit and Evaluation Plan, we explained that we intended to focus our resources on four areas of significant risk facing FHFA. One of the four risk areas we identified was the risk from counterparties the Enterprises rely upon as part of their business operations to fulfill their mission. One of the largest counterparty risks to the Enterprises is the risk posed by nonbank seller/servicers because of their growing share of originations and servicing of mortgage loans acquired by the Enterprises.

FHFA has issued three advisory bulletins setting forth its supervisory expectations for Enterprise oversight of single-family mortgage sellers and servicers, whether depository institutions or nonbanks. In this evaluation, we assessed FHFA's efforts to determine whether the Enterprises' practices were in compliance with these advisory bulletins regarding risk management of nonbank seller/servicers. (See OIG, *FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers* (EVL-2017-002, December 21, 2016), online at [www.fhfaig.gov/Reports/AuditsAndEvaluations](http://www.fhfaig.gov/Reports/AuditsAndEvaluations).)

We found that DER conducted supervisory activities to assess whether one Enterprise's practices comply with the supervisory expectations set forth in the three advisory bulletins. We further found that DER examined the other Enterprise's compliance with only one of the advisory bulletins. DER conducted no supervisory activities to determine that Enterprise's compliance with the other two advisory bulletins and, as a result, issued no findings or conclusions related to its compliance.

We also reviewed DER's supervisory plan for 2016 and found no targeted examinations that would position DER to reach conclusions regarding whether the second Enterprise's practices comply with the supervisory expectations set forth in these two advisory bulletins. Although DER is conducting limited ongoing monitoring of the Enterprise's risk management related to seller/servicers, these activities are not specific to nonbank seller/servicers and do not identify nonbank risk management as a focus area.

Identifying and communicating supervisory expectations does not meet the goal of safety and soundness if an Enterprise fails to meet those expectations. Absent sufficient examination work, FHFA does not have assurance that the Enterprises have met its expectations and are exercising sufficient risk management with respect to nonbank seller/servicers.

Based on our findings, we recommended that FHFA conduct examination activities necessary to determine whether the Enterprise's risk management of nonbank seller/servicers satisfies FHFA's supervisory expectations as expressed in its advisory bulletins. FHFA generally agreed with this recommendation. FHFA's response, however, did not commit the Agency to complete the specific actions described in our recommendation. Given the Agency's statement that it "generally agree[s]" with our recommendation, we are treating its response as an agreement to implement the recommendation as written.

## Information Technology Security

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

We completed two audits during the reporting period assessing the existing information



security programs at FHFA and OIG. (See OIG, *Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2016* (AUD-2017-001, October 26, 2016) and *Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016* (AUD-2017-002, October 26, 2016), both online at [www.fhfaoig.gov/Reports/AuditsAndEvaluations](http://www.fhfaoig.gov/Reports/AuditsAndEvaluations).) Both audits were conducted in accordance with FISMA. OIG contracted with an independent public accounting firm, Kearney & Company, P.C., 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 programs and practices, and respond to the Department of Homeland Security's Fiscal Year 2016 Inspector General Federal Information Security Modernization Act of 2014 Reporting Metrics, dated September 26, 2016. Because information in these reports could be abused to circumvent FHFA's and OIG's internal controls, the complete text of the reports has not been released publicly.

## Agency Operations

### Use of FHFA Vehicles and Employees

OIG conducted an investigation of an anonymous hotline complaint alleging improper use of government resources by a senior government employee and his spouse. (See OIG, *Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation* (OIG-2017-001, December 6, 2016), online at [www.fhfaoig.gov/Reports/ManagementAlerts](http://www.fhfaoig.gov/Reports/ManagementAlerts).) OIG's investigation did not substantiate the

allegation in the complaint regarding use by the senior government employee's spouse. However, OIG found that the senior government employee used government support staff multiple times to book personal travel. According to FHFA's Designated Agency Ethics Official, this use was not required in the performance of official duties or authorized in accordance with law or regulation. OIG also found that the senior government employee used a government vehicle multiple times inconsistent with applicable law. Our investigation found that FHFA officials responsible for providing transportation lacked knowledge about the governing statutory and regulatory requirements. We referred this matter to the Department of Justice (DOJ) on January 5, 2016, and the referral was declined on the same date. OIG issued a report on this matter to our oversight committees and published a Privacy Act compliant report on our website. We made seven recommendations, which the Agency accepted.

### Conflict of Interest

OIG received whistleblower complaints raising questions about a conflicts of interest issue, conducted an administrative investigation into these allegations, and reported the results in March 2017 to the FHFA Director and to our congressional oversight committees in a Management Alert and accompanying expert report pursuant to our responsibilities under the Inspector General Act. Public release by OIG of 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).

### FHFA's Government Purchase and Travel Card Programs

The Government Charge Card Abuse Prevention Act of 2012 and implementing instructions by the Office of Management and Budget (OMB)

require that the inspector general of each executive agency conduct periodic risk assessments of the agency's purchase card and travel card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments to guide analyses or audits of these programs as necessary. Where annual travel card spending for an agency exceeds \$10 million, this Act and OMB require periodic audits or reviews of the agency's travel card program.

For fiscal years 2016 and 2015, FHFA reported that its purchase card expenditures were \$1,129,161 and \$970,916, respectively, and travel card expenditures were \$1,938,859 and \$1,824,252, respectively. Because travel card expenditures in each of those two fiscal years were significantly less than \$10 million, no audit of FHFA's travel card program is required.

We conducted a risk assessment of FHFA's purchase and travel card programs for fiscal years 2016 and 2015 to assess the risks of illegal, improper, or erroneous purchases and payments to determine whether an audit of either program would be prudent. (See OIG, *Risk Assessment of FHFA's Fiscal Years 2016 and 2015 Government Purchase Card and Travel Card Programs* (OIG-RA-2017-001, March 27, 2017), online at [www.fhfaoig.gov/Reports/RiskAssessments](http://www.fhfaoig.gov/Reports/RiskAssessments).) We looked at the annual amount of purchase and travel card spending during those two fiscal years, the number of FHFA cardholders, FHFA's internal control over its purchase and travel card programs, the results of internal and external purchase and travel card-related activities and reviews, and the results of prior financial audits of FHFA performed by the Government Accountability Office (GAO). Based on our risk assessment, we concluded that the risk of illegal, improper, or erroneous purchases and payments through FHFA's purchase and travel card programs during the prior two fiscal years was low and, accordingly, an audit of these programs would not be warranted during fiscal year 2017.

## Reports and Recommendations

Below are the 14 audits, evaluations, compliance reports, management alerts, special reports, and risk assessments published during the period. See [www.fhfaoig.gov](http://www.fhfaoig.gov) for a complete list of all reports issued by OIG since its inception. A complete list of the recommendations made in all OIG reports is provided in Appendix B.

Report	Date
<i>Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2016 (<a href="#">AUD-2017-001</a>)</i>	October 26, 2016
<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016 (<a href="#">AUD-2017-002</a>)</i>	October 26, 2016
<i>FHFA's Use of Inconsistent Criteria Materially Affected its Reporting of Remediation of Serious Deficiencies in its 2015 Performance and Accountability Report (<a href="#">EVL-2017-001</a>)</i>	November 9, 2016
<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation (<a href="#">OIG-2017-001</a>)</i>	December 6, 2016
<i>Update on the Status of the Development of the Common Securitization Platform (<a href="#">COM-2017-001</a>)</i>	December 9, 2016
<i>Fannie Mae Dallas Regional Headquarters Project (<a href="#">OIG-2017-002</a>)</i>	December 15, 2016
<i>Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises (<a href="#">OIG-2017-003</a>)</i>	December 15, 2016
<i>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers (<a href="#">EVL-2017-002</a>)</i>	December 21, 2016
<i>Compliance Review of Federal Home Loan Bank Fraud Reporting to FHFA (<a href="#">COM-2017-002</a>)</i>	January 24, 2017
<i>Directives from the Audit Committee of the Freddie Mac Board of Directors Caused Management to Improve its Reporting about Remediation of Serious Deficiencies from October 2015 through September 2016 (<a href="#">ESR-2017-003</a>)</i>	March 22, 2017
<i>Update on FHFA's Implementation of its Housing Finance Examiner Commission Program (<a href="#">COM-2017-003</a>)</i>	March 22, 2017
<i>Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue (<a href="#">OIG-2017-004</a>)</i>	March 23, 2017
<i>Risk Assessment of FHFA's Fiscal Years 2016 and 2015 Government Purchase Card and Travel Card Programs (<a href="#">OIG-RA-2017-001</a>)</i>	March 27, 2017
<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions (<a href="#">EVL-2017-004</a>)</i>	March 28, 2017

# Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority that is exercised by its Office of Investigations (OI). OI is staffed with highly trained law enforcement officers, investigative counsels, analysts, and attorney advisors. OI conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies in connection with programs and operations of the Agency and the GSEs.

To maximize criminal and civil law enforcement, OI works closely with other law enforcement agencies, including DOJ, the Federal Bureau of Investigation (FBI), the Department of Housing and Urban Development Office of Inspector General (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

Depending on the type of misconduct uncovered, OI investigations may result in criminal charges, civil complaints, and/or administrative sanctions and decisions. Criminal charges filed against individuals or entities may result in plea agreements or trials, incarceration, restitutions, fines, and penalties. Civil claims can lead to settlements or verdicts with restitutions, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs. Four of OIG's attorney-investigators have been appointed as Special Assistant U.S. Attorneys in several judicial districts throughout the country. They have been assigned criminal matters arising from OI's investigations in the districts where they have been appointed and have pursued these investigations through to conviction and sentencing, which has contributed to an increase in OIG's effectiveness.

The type of misconduct OI special agents (SAs) investigate varies, as does the complexity of the schemes involved. Various elements contribute to determining the resources necessary for each investigation and the length of time necessary to see each investigation through to the end. For example, loan or mortgage origination schemes, a common type of mortgage fraud, can be very labor intensive. Experienced SAs review and analyze mortgage loan files in order to detect red flags. SAs understand how to identify the indicators of fraud and, just as importantly, how to gather necessary evidence and put together a case.

Since its inception, OIG has maintained a hotline to provide easy access for individuals to report tips, complaints, or referrals (TCRs) of alleged violations of criminal and civil laws in connection with programs and operations of the Agency. OI is also responsible for conducting a preliminary review of all hotline TCRs. Our hotline is staffed by a third-party vendor to protect the anonymity of the callers and to provide easy access for reporting. Every TCR, whether made by telephone directly to the hotline, email, website, or in person, is sent to the hotline and logged by the hotline, and attorneys in OI conduct a preliminary assessment to determine whether further review and investigation is appropriate. Each TCR can result in multiple contacts with a complainant. During this reporting period, 690 discrete contacts to the hotline were made involving TCRs, and 171 separate TCRs were logged by the hotline. When OI determines an investigation of a report is warranted, OIG conducts that investigation. The three management alerts issued during this reporting period present the findings and conclusions of administrative investigations of hotline TCRs.

**Figure 2. OI Monetary Results from October 1, 2016, Through March 31, 2017**

	Criminal Investigations	Civil Investigations
Fines <sup>a</sup>	\$13,085,417	\$5,630,000,000
Settlements	\$-	\$6,952,000,000
Restitutions	\$15,382,297	\$-
<b>Total</b>	<b>\$28,467,714</b>	<b>\$12,582,000,000</b>

<sup>a</sup>Fines include criminal fines, seizures, forfeiture and special assessments, and civil fines imposed by federal court.

During the semiannual reporting period, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 71 individuals, the conviction of 60 individuals, and 52 sentencings, as well as court-ordered fines and restitution awards.

Figures 2 and 3 (see above and right) summarize the results obtained during this reporting period from our investigative efforts.

For ease of review, we group our criminal investigations during this period into the categories described below. In each category, we describe the nature of the crime and include a few highlights of matters investigated by OIG. For a summary of publicly reportable investigative outcomes for each category during this reporting period, see Appendices E–M.

## Investigations: Civil Cases

During the semiannual reporting period, OI continued to actively participate in residential mortgage-backed securities (RMBS) investigations. In 2012, an RMBS Working Group was created to investigate individuals and entities responsible for misconduct involving the pooling of mortgage loans and sale of RMBS. During the reporting period OI SAs continued to work closely with

**Figure 3. Reports, Referrals, Prosecutions, and Convictions from October 1, 2016, Through March 31, 2017<sup>a</sup>**

Investigative Reports <sup>b</sup>	30
Criminal Referrals to DOJ	58
Criminal Referrals to State and Local Prosecuting Authorities	13
Indictments and Informations During the Reporting Period That Resulted from Referral to Prosecutors During Prior Reporting Periods	45
Total Number of Indictments and Informations During the Reporting Period Resulting from OIG Referrals	71
Trials	6
Convictions/Pleas	60
Sentencings	52

<sup>a</sup>All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court. This includes both public and 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.

<sup>b</sup>For the purposes of this SAR, an investigative report is defined as the Report of Investigation finalized at the conclusion of the investigation, prior to case closure.

U.S. Attorneys' offices around the country and with a state attorney general to investigate allegations of fraud committed by financial institutions and individuals in connection with RMBS. OIG, as the lead investigating agency on RMBS frauds, has conducted its investigatory activities through OI. OI special agents and attorneys have reviewed evidence produced by various parties for members of the Working Group, assisted with witness interviews, provided strategic litigation advice, and briefed other law enforcement agencies on the operations of the RMBS market. Since the inception of the RMBS Working Group, DOJ has negotiated civil settlements worth over \$51 billion. As discussed below, during this semiannual



reporting period, civil settlements were reached with Société Générale S.A. (SocGen), Credit Suisse, Deutsche Bank, and Ally Financial.

### **Société Générale S.A. Agrees to Pay \$50 Million Penalty to Settle RMBS Fraud Claims**

On January 20, 2017, a settlement agreement was reached between DOJ and several affiliates of the bank SocGen for fraud claims involving RMBS and collateralized debt obligations. In order to resolve the fraud claims SocGen agreed to pay a \$50 million civil monetary penalty, acknowledge certain false statements or representations made to investors, including Fannie Mae, Freddie Mac, and federally insured financial institutions, and cooperate fully with DOJ in all future investigations and any prosecution arising out of the conduct covered by the agreement.

The settlement includes a statement of facts agreed to by SocGen, whereby SocGen acknowledges responsibility for its conduct. For example, SocGen acknowledged that it falsely represented to investors that the loans underlying an RMBS were originated generally in accordance with the loan originator's **underwriting** guidelines. As detailed in the statement of facts, SocGen's third-party due diligence vendor for the RMBS at issue determined that almost 40% of the loans it reviewed were underwritten outside of guidelines and lacked adequate compensating factors to make the loans eligible for securitization. SocGen acknowledged that it did not disclose these results to investors. The investigation also determined that SocGen falsely represented facts about the combined loan-to-value of mortgages in its securitizations.

Fannie Mae and Freddie Mac purchased nearly \$1.2 billion in RMBS sponsored and underwritten by SocGen. The Enterprises purchased over \$354.4 million of certificates issued in connection with a SocGen securitization covered by this investigation.

### **Credit Suisse Agrees to Pay \$5.28 Billion in Connection with its Sale of RMBS**

On January 18, 2017, DOJ announced a \$5.28 billion settlement with Credit Suisse related to Credit Suisse's conduct in the packaging, securitization, issuance, marketing, and sale of RMBS between 2005 and 2007. The investigation revealed that Credit Suisse made false and misleading representations to prospective investors about the characteristics of the mortgage loans it securitized. Credit Suisse agreed to pay \$2.48 billion as a civil penalty under the Financial Institutions Reform, Recovery, and Enforcement Act. It will also provide \$2.8 billion in other relief in the form of loan forgiveness and financing for affordable housing.

As part of the settlement, Credit Suisse agreed to a detailed statement of facts. That statement describes how the bank knowingly made false and misleading representations to investors about the characteristics of the mortgage loans it securitized in RMBS worth billions of dollars issued by the bank.

For example, Credit Suisse acknowledged in the statement of facts that it "repeatedly received information indicating that many of the loans reviewed did not conform to the representations that were made by Credit Suisse to investors about the loans to be securitized." It further acknowledged that in many cases, it purchased and securitized loans into its RMBS that "did not comply with applicable underwriting guidelines and lacked sufficient compensating factors" and/or "w[ere] not originated in compliance with applicable laws and regulations." Credit Suisse agreed that its employees even referred to some loans they securitized as "bad loans," "complete crap," and "[u]tter complete garbage."

Between September 2005 and November 2007, Fannie Mae and Freddie Mac purchased over \$14.1 billion in RMBS from Credit Suisse in 43 transactions.

### **Deutsche Bank Agrees to Pay \$7.2 Billion for Misleading Investors in its Sale of RMBS**

On January 17, 2017, DOJ announced a \$7.2 billion settlement with Deutsche Bank resolving federal civil claims that Deutsche Bank misled investors in the packaging, securitization, marketing, sale, and issuance of RMBS between 2006 and 2007. This \$7.2 billion agreement represents the single largest RMBS resolution for the conduct of a single entity. The settlement requires Deutsche Bank to pay a \$3.1 billion civil penalty and to also provide \$4.1 billion in relief to **underwater** homeowners, distressed borrowers, and affected communities.

As part of the settlement, Deutsche Bank agreed to a detailed statement of facts. That statement describes how Deutsche Bank knowingly made false and misleading representations to investors about the characteristics of the mortgage loans it securitized in RMBS worth billions of dollars issued by the bank between 2006 and 2007.

For example, Deutsche Bank represented to investors that loans securitized in its RMBS were originated generally in accordance with mortgage loan originators' underwriting guidelines. But as Deutsche Bank acknowledged in the statement of facts, the bank's own reviews confirmed that "aggressive" revisions to the loan originators' underwriting guidelines allowed for loans to be underwritten to anyone with "half a pulse." More generally, Deutsche Bank knew, based on the results of due diligence, that for some securitized loan pools, more than 50% of the loans subjected to due diligence did not meet loan originators' guidelines.

Freddie Mac and Fannie Mae purchased RMBS in several of the Deutsche Bank RMBS transactions that were the primary focus of the investigation.

### **Ally Financial Settlement in RMBS Investigation; Agrees to Pay \$52 Million, California**

On November 21, 2016, Ally Financial Inc. agreed to pay the United States \$52 million to settle allegations that its subsidiaries acted improperly in relation to 10 subprime RMBS in 2006 and 2007.

Under the settlement agreement, Ally was also required to discontinue operations of its registered broker-dealer, Ally Securities, LLC, which served as the lead underwriter on the subprime RMBS at issue in this matter.

The subsidiary will be wound-down immediately and de-registered as a broker-dealer as acknowledgment of the improper conduct. The broker-dealer served as the lead underwriter on the 10 subprime RMBS offerings issued in the RASC-EMX series between 2006 and 2007. Ally Securities dedicated a specialized marketing effort to create the RASC-EMX brand, securing investors for the RMBS offerings and directing third-party due diligence on samples of the mortgage loan pools underlying the RMBS to test whether the loans complied with disclosures made to investors in the public offering documents.

As the lead underwriter, Ally Securities recognized in 2006 and 2007 that there was a consistent trend of deterioration in the quality of the mortgage loan pools underlying the RASC-EMX securities that stemmed, at least in part, from deficiencies in the subprime mortgage loan underwriting guidelines and diligence applied to the collateral prior to securitization. All the RASC-EMX securities sustained losses as a result of underlying mortgage loans falling delinquent. Freddie Mac purchased RMBS in four of the RASC-EMX transactions.

See Appendix K for a summary of publicly reportable criminal investigative outcomes involving RMBS.

## Investigations: Criminal Cases

Below we set forth highlights of OIG criminal investigations during this semiannual reporting period in a number of different categories that resulted in criminal indictments, convictions, plea agreements, sentencing, and court-ordered fines and restitution judgments.

### Condo Conversion and Builder Bailout Schemes

In these types of schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they've 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 we summarize three OIG investigations in this category that resulted in indictments, plea agreements, sentencing, court-ordered fines, and a restitution judgment during this semiannual reporting period. (See Appendix E for a summary of publicly reportable investigative outcomes in this category.)

#### Multiple Indictments, Guilty Pleas, and Sentencings in Condominium Bank Fraud Scheme, Florida

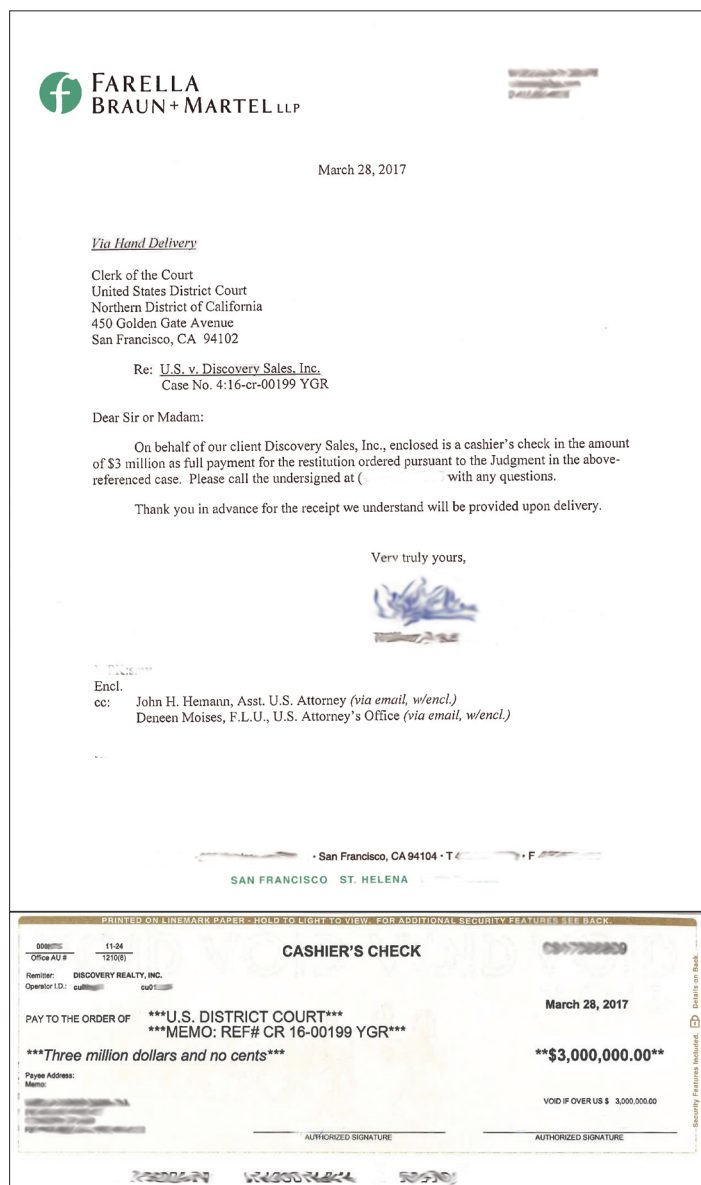
Seventeen defendants were indicted in January 2017 on charges of conspiracy to commit bank and wire fraud and bank fraud, and five others were sentenced, in connection with a condominium bank fraud scheme in Miami, Florida. The co-conspirators allegedly enriched themselves by using **straw buyers** and unqualified buyers to purchase and finance residential properties. The co-conspirators prepared and submitted fraudulent

loan application documents to induce lenders to fund mortgage loans for condominium units. The documents misrepresented the borrowers' occupations, occupancy intentions, income and assets/liabilities, earnest money deposits, cash to close, fees paid to the marketing company, the seller's payment of kickbacks to borrowers by using a marketing company, and other information that was material to borrowers' qualifications to borrow money from the lenders. Co-conspirators, acting as title settlement agents, disbursed mortgage loan proceeds even though the borrowers did not pay the earnest money deposits and/or cash to close payments required by their loan applications and HUD-1 Settlement Statements. As part of this scheme, distributions through the settlement transactions were made to a marketing company used to disguise the kickback payments to the buyers.

Multiple indictments, guilty pleas, and sentencing occurred during the reporting period in this matter. Of the 17 co-conspirators who were indicted in January 2017, four defendants pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution during the reporting period. Two additional defendants had previously pled guilty in November 2016.

Additionally, on January 19, 2017, five defendants were sentenced for their roles in this scheme. Rafael Amador and Osvaldo Sanchez were sentenced to 12 months and 1 day in prison, 5 years of supervised release, and ordered to pay restitution of \$2,146,242 and \$1,749,014, respectively, and three other defendants received sentences of prison time and restitution.

The Enterprises purchased several loans involved in this fraud. The loss is currently estimated at over \$1.5 million.



Letter and check detailing \$3 million restitution payment to the Enterprises.

### **Sentencing of Former President and Corporation in Builder Bailout Scheme: \$3 Million in Restitution Ordered Paid to the Enterprises, California**

On March 16, 2017, Ayman Shahid, the former President of Discovery Sales, Inc. (DSI) was sentenced to 46 months in prison, 3 years of supervised release, and ordered to pay a \$50,000 fine.

DSI sold new homes in the East Bay area of Northern California. Shahid directed and managed all of the day-to-day operations of DSI. Shahid and others conspired to induce buyers to purchase homes at inflated prices by providing undisclosed financial incentives to the buyers to keep the sales prices of the new homes high, thereby protecting the financial interest of the builders.



On December 8, 2016, DSI, a privately held corporation, pled guilty to bank fraud due to its corporate liability for the actions of its three former employees, and the acknowledgment that it sold homes using incentive programs that were undisclosed to lenders. DSI was sentenced to 5 years of probation and ordered to pay an \$8 million fine and restitution totaling \$3 million to the Enterprises.

### **Trial Conviction of Former CFO of Resort and Indictment of Former JP Morgan Chase Bank Officer in Connection with Multimillion-Dollar Fraud, Florida**

On March 3, 2017, former Cay Clubs Resorts Chief Financial Officer (CFO) David Schwarz was convicted after a jury trial on charges of conspiracy to commit bank fraud, bank fraud, and interference with the administration of Internal Revenue laws.

Schwarz was CFO and partial owner of the Cay Clubs Resorts, which marketed vacation rental units for 17 locations in Florida, Las Vegas, and the Caribbean and raised more than \$300 million from investors by promising to develop dilapidated properties into luxury resorts. Cay Clubs Resorts incentivized investors by promising an upfront “leaseback” payment of 15–20% of the unit sales price at the time of closing. These incentives were concealed from the lenders and the Enterprises.

As the Cay Clubs enterprise experienced financial difficulties, Schwarz conspired with others at Cay Clubs to recruit insiders as straw buyers to obtain mortgages on Cay Clubs condominiums. The loan proceeds were then diverted to the failing Cay Clubs company and to pay out investor leaseback payments.

In a related case, on December 6, 2016, Ross Pickard was indicted on charges of conspiracy and loan and credit application fraud for his role in this scheme. According to the indictment, Pickard



The Pirate's Choice Rum company was purchased with proceeds from the Cay Clubs fraud scheme. The rum company is no longer operational.

was a senior loan officer at JP Morgan Chase Bank. He allegedly conspired with others in a scheme to defraud the bank by completing, certifying, and submitting mortgage loan applications on behalf of borrowers that contained false and fraudulent statements. The alleged false statements included, but were not limited to, false occupancy, overinflated income and assets, and the understated liabilities. By relying on Pickard's false and fraudulent statements on the loan applications, JP Morgan Chase was induced into funding mortgage loans for otherwise unqualified borrowers.

The fraud scheme caused losses to Fannie Mae and Freddie Mac in excess of \$11 million.



## 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 we summarize three OIG investigations in this category that resulted in plea agreements, a trial conviction, and sentencings during this semiannual reporting period. (See Appendix F for a summary of publicly reportable investigative outcomes in this category.)

### **Guilty Trial Verdict and Guilty Pleas in Multimillion-Dollar Origination Fraud Scheme, New York**

On January 19, 2017, after a two-week trial, James Bayfield was found guilty of conspiracy to commit bank fraud and wire fraud and bank fraud.

The evidence at trial established that Bayfield, together with co-defendants, submitted fraudulent mortgage loan applications to lending institutions. These applications contained inflated purchase prices and appraisals for the properties as well as false information about the assets and income of the purchasers of the properties, many of whom were paid to act as straw purchasers. The co-defendants also falsified HUD forms and provided false down payment checks to make it appear as if the straw purchasers and the other borrowers had made down payments in connection with the purchase of the properties, which was a condition of the lending institutions for issuing the mortgage loans.

To conceal their criminal involvement and to inflate the value of the properties, the co-defendants conducted simultaneous purchases and sales

of the properties using backdated and falsified documents. The backdated documents concealed from the lenders that the purchase and the sale had occurred on the same day and made it appear as if the transaction between the homeowner and the co-defendant had occurred over 60 days prior to the sale from the co-defendant to the straw purchaser.

In related cases, during December 2016 Dirk Ameen Hall and Michelle Baker pled guilty to conspiracy to commit bank fraud and wire fraud for their roles in this scheme.

As a result of this scheme, the lending institutions were fraudulently induced to issue millions of dollars of mortgage loans, many of which later defaulted. The co-defendants collectively caused the financial lending institutions to loan out over \$5.5 million, of which over \$2.7 million was their profit from the scheme. Freddie Mac suffered losses.

### **Three Sentenced in Scheme Involving Fraudulent Loan Applications, California**

John Martynec, a real estate broker and the owner of JTR Real Estate, Inc. (JTR), along with JTR employees Elek Andrade, a licensed real estate salesperson, and Mireya Espinoza, a licensed tax preparer, defrauded lenders by using straw buyers to purchase properties from JTR's inventory.

JTR bought, renovated, and resold residential properties. Because JTR struggled to sell the renovated homes in its portfolio profitably, the defendants recruited straw buyers to buy the properties. The defendants facilitated the submission of the straw borrowers' fraudulent loan applications, which contained materially false information regarding the buyers' employment, income, assets, and intent to reside in the properties. Espinoza was paid to prepare false documentation regarding her preparation of the straw buyers' tax returns and verification of employment listed on the loan applications. Lenders relied on these

misrepresentations and approved over \$2.4 million in loans to straw buyers. Some of the loans were subsequently bought by the Enterprises.

In February 2017, Martynec was sentenced to 24 months in prison, while Andrade and Espinoza were each sentenced to 12 months and 1 day in prison. Each defendant's prison term is followed by 3 years of supervised release. Andrade and Martynec were ordered to pay \$2,573,092 in restitution, while Espinoza's ordered restitution was \$1,476,966. All restitution in this case was ordered jointly and severally. Andrade was additionally ordered to perform 3,120 hours of community service.

### **24-Year Prison Sentence in Mortgage Fraud Scheme, Colorado**

On October 28, 2016, Jose Ricardo Sarabia-Martinez was sentenced to 288 months in prison followed by 5 years of parole and on March 21, 2017, he was ordered to pay \$951,571 in restitution, jointly and severally, for his role in a fraud scheme.

Sarabia-Martinez and others used their status as professionals in the real estate industry to facilitate a mortgage fraud scheme. Sarabia-Martinez and co-defendants collaborated to fraudulently acquire loans on behalf of victim straw buyers. Eventually the borrowers defaulted, resulting in foreclosure of their homes and the destruction of their credit. The investigation of this fraud scheme identified 12 properties and \$4.6 million in fraudulent loans acquired for securitization by the Enterprises and others.

### **Loan Modification and Property Disposition Schemes**

These 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 we summarize three OIG investigations in this category that resulted in criminal indictments and plea agreements during this semiannual reporting period. (See Appendix H for a summary of publicly reportable investigative outcomes in this category.)

### **Guilty Plea in \$30 Million Mortgage Relief Fraud Scheme, California**

On October 21, 2016, an indictment was unsealed charging the alleged architect of a \$30 million mortgage relief fraud scheme and four of her relatives. Dorothy Matsuba, Thomas Matsuba, Jane Matsuba-Garcia, Jamie Matsuba, and Young Park were charged with conspiracy to commit wire fraud, false statements in loan and credit applications, and identity theft. Additionally, Dorothy Matsuba and Matsuba-Garcia were charged with aggravated identity theft.

According to the indictment, the Matsuba family operated a number of companies that claimed to help struggling homeowners burdened with large mortgages. The Matsubas allegedly falsely promised the victims they would short sell the homes and relieve the borrowers of their mortgage debt. Relying on the Matsubas' promises, the homeowners deeded their properties to entities controlled by the Matsubas. The Matsubas promised that they would make the mortgage payments while they negotiated with the homeowners' lenders to short sell the properties. Instead, the Matsubas failed to make any mortgage payments and rented out the properties to third parties. To delay the inevitable foreclosures and maximize the time period over which the Matsubas could collect rental payments, the co-conspirators submitted fraudulent **short sale** purchase offers to the lenders and filed false **bankruptcy** petitions. Loss calculations

impacting the Enterprises as a result of this scheme are ongoing.

On March 2, 2017, a superseding information was filed charging Jane Matsuba-Garcia with subscribing to a false tax return. Four days later, Matsuba-Garcia pled guilty to conspiracy to commit wire fraud, false statements relating to loan applications, identity theft, and subscribing to a false tax return.

### **Indictments and Guilty Pleas in Loan Modification and Foreclosure-Delay Scheme, Maryland**

On November 29 and December 21, 2016, Rene de Jesus de Leon and Pedrina Rodriguez Bonilla pled guilty to conspiracy to commit mail and wire fraud. Bonilla, de Leon, and others convinced struggling homeowners to stop paying their mortgages and communicating with their lenders. Instead, the homeowners were instructed to pay one or more of the companies run by de Leon, Bonilla's husband, with assurances that he and other co-conspirators would negotiate with the victims' lenders on their behalf to obtain loan modifications. De Leon victimized at least 60 homeowners in this scheme, and Bonilla victimized at least 24 homeowners.

Many of the victims in this scheme were victimized twice: first with a failed attempt to acquire a loan modification working with one of de Leon's companies, then as victims of another alleged foreclosure rescue scam. The three below individuals were indicted during the reporting period in connection with that fraud.

On February 6, 2017, Michelle Jordan, her husband Michael Welsh, and Carrol Jackson were indicted on charges of mail fraud, wire fraud, and conspiracy to commit mail and wire fraud.

According to the indictment, Jordan, Chief Executive Officer (CEO) and Director of MJ Loan Auditor Group, LLC (MJLAG), and Welsh, the president, vice president, and director of MJLAG,

falsely advised homeowners—including some who had already been victimized by de Leon and Bonilla—that MJLAG could help them obtain mortgage modifications, avoid foreclosure, and eliminate any debt or liens against their properties.

MJLAG allegedly required its customers to sign a "Contract Fee Agreement" that requested a loan audit of the homeowner's property. Jordan and Welsh told homeowners the audits would be used for many things, including to uncover fraud committed by their lenders, to be used as evidence in lawsuits against the lenders, or to convince the lenders to modify their loans. The "Contract Fee Agreement" included the seal of the National Association of Mortgage Underwriters. The co-conspirators and their businesses, however, were not affiliated with the National Association of Mortgage Underwriters. Jackson allegedly prepared fraudulent audit reports for the properties belonging to MJLAG's customers and was paid for these fraudulent reports by Jordan and Welsh. Jordan also directed homeowners in foreclosure to file for bankruptcy in order to delay the proceedings, and assisted the customers by preparing false bankruptcy petitions and court documents. In exchange for these services, MJLAG customers made payments to companies controlled and operated by Jordan, Welsh, Jackson, and other co-conspirators.

At least 20 of the properties involved in this investigation were financed through Enterprise-backed loans. Overall scheme losses and those attributed to the Enterprises have not yet been determined.

### **Three Indicted in Multi-state Loan Modification Scheme with Over 550 Victims, Kansas**

On November 30, 2016, Tyler Korn, Amjad Daoud, and Ruby Price were indicted on charges of conspiracy to commit mail and wire fraud, and mail fraud for their roles in a loan modification/

foreclosure rescue scheme. Korn and Price were additionally charged with wire fraud.

Korn and Daoud operated Reliant Home Financial Group, and Price operated the Arize Group, Incorporated. Together, they allegedly devised a scheme to defraud homeowners with false promises of protecting them from foreclosure. The indictment alleges the 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 allegedly advised 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. The co-conspirators allegedly used the victims' monies for personal gain.

To date, over 550 victims have been identified in 24 states. The victims suffered approximately \$1,271,640 in direct monetary loss; this loss does not include additional fees paid by victims to their lenders or losses to lenders caused 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.

Below we summarize two OIG investigations in this category that resulted in criminal charges, sentencing, and court-ordered restitution during this semiannual reporting period. (See Appendix G for a summary of publicly reportable investigative outcomes in this category.)

### **Prison Sentences and Restitution Ordered in Short Sale and Bank Fraud Schemes, Texas**

On November 15, 2016, Daylon Esaw was sentenced to 41 months in prison, 3 years of supervised release, and ordered to pay \$111,744 in restitution, jointly and severally, for his role in schemes involving bank fraud, money laundering, and trafficking stolen access devices that resulted in three separate criminal cases. Esaw received the same sentence for each criminal case, to be served concurrently.

Esaw and co-defendant Melvin Layman forged quit claim deeds of distressed properties to Esaw or to individuals under their control in an effort to cloud the titles. Once accomplished, they filed lawsuits against the lending institutions to stop the pending foreclosure, then demanded that the banks provide them a settlement or authorize short sales for the properties prior to clearing the property title.

In a separate criminal case, Layman and Rebecca Quinn conspired to have Quinn lie while testifying under oath during federal grand jury proceedings. Quinn testified that she notarized certain mortgage documents, which was untrue. The false loan documents containing Quinn's notary stamp were submitted to lenders in a house flipping scheme. For her role in this scheme, Quinn was previously sentenced to 5 months in prison and 2 years of supervised release with 5 months of home detention.

On January 11, 2017, Melvin Layman was sentenced to 51 months in prison, 5 years of supervised release, and ordered to pay \$111,744 in restitution, jointly and severally, for his role as an organizer in the bank fraud scheme. On the same date, Layman was sentenced to 16 months in prison and 5 years of supervised release, to be served concurrently, for his role in the conspiracy case.



## **Two Real Estate Professionals Charged in Short Sale Fraud Scheme, California**

On December 2, 2016, Angelo Naemi and Steve Gonzales were charged with grand theft by false pretenses and conspiracy to commit grand theft.

Naemi, a real estate salesperson, and Gonzales, a real estate broker, allegedly engaged in a short sale fraud scheme by personally selecting investors to purchase short sale properties and failing to properly market the properties to other potential buyers, in violation of the arm's length affidavit. In some instances, short sellers remained in their homes and rented the properties from the investors. In other cases, the short sellers repurchased their properties for drastically less than what was owed to the lenders, effectively receiving a principal reduction. Naemi and Gonzales allegedly received significant commissions for their roles in the fraud. The Enterprises owned seven of the properties involved in this scheme and sustained more than \$500,000 in losses because of the fraud.

## **Property Management and REO Schemes**

Numerous foreclosures left the Enterprises with an inventory of **real estate owned (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.

Below we summarize two OIG investigations in this category that resulted in criminal charges, a plea agreement, sentencing, and court-ordered restitution during this semiannual reporting period. (See Appendix I for a summary of publicly reportable investigative outcomes in this category.)

## **CEO Pleads Guilty and Notaries Charged in Property Investment Scheme, Michigan**

On March 21, 2017, Sameer Beydoun pled guilty to conspiracy to commit wire fraud. Beydoun was the founder and CEO of Metro Property Group (MPG). Beydoun and others allegedly conspired with overseas real estate firms to locate and market REO properties not under MPG's control or ownership for sale to foreign investors. The schemers advertised the properties as tenanted and fully refurbished, when they were often vacant and in extreme disrepair. Once the foreign investors wired deposit funds to the title company, Beydoun and others would purchase the REO property. The REO property would then be sold to the foreign investor for up to three or four times the original REO sale price. Many of the foreign investors would also agree to have the property management arm of MPG manage the property for a fee. In many instances, Beydoun and other MPG employees would send money or fraudulent rental agreements to the foreign investor, falsely representing that the property had a tenant and was producing income. Numerous REO properties purchased by Beydoun and his associates were Fannie Mae REOs.

In related cases, on March 29, 2017, Phillip and Sandra Hayes were charged with violations of the Michigan Notary Public Act by performing notary acts in transactions of real properties and mortgages.

## **Recruiter in REO Property Flipping Scheme Sentenced, Tennessee**

On November 17, 2016, Thomas Munn, Jr. was sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$605,801 in restitution and \$605,801 in forfeiture, both ordered jointly and severally, for his role in an REO property flipping scheme.



Munn recruited individuals to purchase properties from co-conspirators who were engaged in a property flipping scheme. Munn provided buyers with incentives that were not disclosed on the HUD-1 Settlement Statements, including providing the cash for their down payments. Munn directed a co-conspirator to open a bank account in the name of a shell company, which was used to funnel undisclosed kickback payments from the sellers to the buyers.

### **Adverse Possession and Distressed Property 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 we summarize three OIG investigations in this category that resulted in a plea agreement, trial convictions, sentencings, and court-ordered restitution during this semiannual reporting period. (See Appendix J for a summary of publicly reportable investigative outcomes in this category.)

#### **Prison Sentences and Restitution Ordered in Scheme to Steal Properties from the Enterprises and Others, California**

On November 7, 2016, Mazen Alzoubi was sentenced to 75 months in prison, 3 years of supervised release, and ordered to pay \$2,506,414 in restitution, jointly and severally, and \$2,192,931 in forfeiture, for his role in a fraudulent deed theft scheme.

Alzoubi and co-defendants operated a scheme to steal properties from the Enterprises and others by forging grant deeds granting the underlying properties to shell companies they created and filing the deeds in the county recorder’s office. By recording these fraudulent deeds, the co-defendants made the transfers appear legitimate. Using a legitimate title and escrow company, the stolen properties were then marketed and sold to unwitting investors. Once the sale proceeds were wired to the co-defendants’ bank accounts, the money was either wired overseas or transferred numerous times in an attempt to launder the money.

As investigators closed in on the co-defendants and successfully stopped the sale of stolen properties, the co-defendants changed tactics and fraudulently assumed control over an LLC that owned many investment properties. The co-defendants, while acting as owners of the stolen LLC, attempted to obtain loans using the properties owned by the LLC as collateral.

By the time the co-defendants were indicted and arrested, they had either sold or attempted to sell 15 properties worth more than \$3.6 million. On at least 10 occasions, the defendants were successful and earned nearly \$2.2 million in illicit proceeds. At least 10 of the properties stolen by the defendants were owned by the Enterprises, valued at over \$2.5 million. The loss to the Enterprises has yet to be determined.

In a related case, on October 24, 2016, Daniel Deaibes was sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay restitution of \$1,819,591, jointly and severally with co-defendants for his role in this scheme.

### **Guilty Verdict and Sentencing of Sovereign Citizens; Falsely Asserted Ownership of Foreclosed Properties Owned by Fannie Mae or Other Lenders, Illinois**

On October 21, 2016, Torrez Moore was found guilty at trial of theft, financial institution fraud, and continuing a financial crimes enterprise in connection with his role in a foreclosure fraud scheme.

Moore and co-conspirators falsely asserted ownership of foreclosed or vacant properties owned by Fannie Mae or other lenders and either moved into the property themselves, or rented the home to a third party and acted as a landlord. On multiple occasions the defendant unlawfully entered the properties, changed the locks, and filed fraudulent documents with the county recorder's office to verify their alleged ownership of the properties.

Moore and co-conspirators identified themselves as "Moors," one segment of a sovereign citizens group that claims they do not recognize the government as having jurisdiction over them.

In a related case, on December 21, 2016, Raymond Trimble pled guilty to theft and was sentenced to 48 months in prison and 2 years of supervised release for his role in this scheme.

### **Jury Trial Convictions and Sentencings in Scheme to Steal Properties from Fannie Mae and Others Using Fraudulent Deeds, Illinois**

On October 26, 2016, a jury found co-defendants Arnetra Ferguson and Terry Teague guilty of mail and wire fraud for their roles in a scheme to defraud Fannie Mae and others by recording false affidavits and promissory notes. Co-defendant Marcus Lenton previously pled guilty to charges of mail and wire fraud for his role in this scheme.

Lenton created fraudulent deeds to steal foreclosed properties from Fannie Mae and lenders. Ferguson and Teague either signed the deeds as representatives of the financial institutions or notarized the deeds. For example, Ferguson fraudulently signed at least one warranty deed as an agent of Fannie Mae that was later notarized by Teague. The deeds were then filed with the county recorder's office, causing title to be fraudulently transferred from Fannie Mae and lenders to Lenton.

Between February and March 2017, all three co-defendants were sentenced for their roles in this scheme. Lenton was sentenced to 24 months in prison with 3 years of supervised release, Ferguson was sentenced to 12 months and 1 day in prison with 2 years of supervised release, and Teague was sentenced to 3 months of probation. In addition to these sentences, all three co-defendants were ordered to pay \$86,000 in restitution, jointly and severally.

### **Multifamily Schemes**

Investigations in this category 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 we summarize an OIG investigation in this category that resulted in an indictment during this semiannual reporting period. (See Appendix L for a summary of publicly reportable investigative outcomes in this category.)

### **Multifamily Property Accountant Indicted, Arizona**

On February 1, 2017, Shana Johnson was indicted on charges of wire fraud, money laundering, and aggravated identity theft for allegedly stealing approximately \$2.9 million combined from two real estate companies.

Johnson worked as an accountant for a property management company in Arizona. Johnson allegedly embezzled over \$2.4 million from bank accounts associated with properties managed by her employer, including four multifamily properties financed by Freddie Mac. Johnson allegedly stole the money by using the company's accounts to issue approximately 450 fraudulent checks, totaling over \$1.4 million, to a relative. Johnson also caused the company to initiate nearly \$1 million in unauthorized electronic transfers to pay for personal expenses, including her purchase of two cars. In an attempt to hide her theft, Johnson allegedly falsified journal entries, bank statements, bank reconciliation reports, and financial statements. Johnson was fired after her employer discovered the fraud.

Johnson then relocated to Atlanta, Georgia, where she became employed in a similar capacity with yet another property management company and allegedly resumed her fraudulent activity. Once again, Johnson allegedly used her position in the company to issue approximately \$500,000 in fraudulent electronic transfers to pay for a variety of personal expenses.

### **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 we summarize three OIG investigations in this category that resulted in indictments, plea agreements, a trial conviction, and a sentencing during this semiannual reporting period. (See Appendix M for a summary of publicly reportable investigative outcomes in this category.)

### **Former Bank Employees Indicted and Pled Guilty in Bank Fraud Scheme; Fraudulent Mortgage Applications Totaled at Least \$19.4 Million, Washington**

On January 26, 2017, four former employees of PC Bank Home Loans (PCBHL), the mortgage lending branch of Pierce Commercial Bank (PCBank), were indicted for their alleged roles in a large-scale bank fraud scheme. Sam Tuttle, former vice president and loan officer, Benjamin Leske, former loan officer, Angela Crozier, former senior loan processor, and Ed Rounds, former loan officer, were indicted for conspiracy to make false statements on loan applications and to commit bank fraud and bank fraud.

PCBHL offered mortgage loans to borrowers and assisted borrowers with their loan applications. The mortgages originated by PCBHL were funded by its parent, PCBank. In turn, PCBank sold the mortgages to financial institution investors. The investors relied on the representations made by borrowers in the loan application prepared by PCBHL.

Tuttle, Leske, Crozier, Rounds, and other co-conspirators allegedly defrauded PCBank and investors by facilitating the submission of fraudulent loan applications to PCBank. According to the indictment, the misrepresentations included inflated appraisals, fake employment histories and rental agreements, and false statements regarding loan applicant's intentions to live in the homes as their primary residences. As a result of their intentional submission of false documents, the co-conspirators caused PCBank to personally enrich them with salaries, commissions, fees, and bonuses. During their employment at PCBHL, the co-conspirators originated fraudulent loans of at least \$19.4 million. Many of the borrowers defaulted on the loans, resulting in large losses that contributed to the eventual failure of PCBank, a member bank of the

FHLBank of Seattle.<sup>6</sup> At the time of its failure, PCBank had more than \$17 million in outstanding advances with the FHLBank of Seattle. The Enterprises, as owners of some loans involved in this scheme, suffered additional losses.

During March 2017, Tuttle and Rounds pled guilty to bank fraud for their roles in this scheme.

In a related case, on January 19, 2017, Craig Meyer, a former vice president and loan officer at PCBHL, pled guilty to making false statements in a loan application.

### **Business Owner Indicted in Bankruptcy Estate Embezzlement Scheme, Florida**

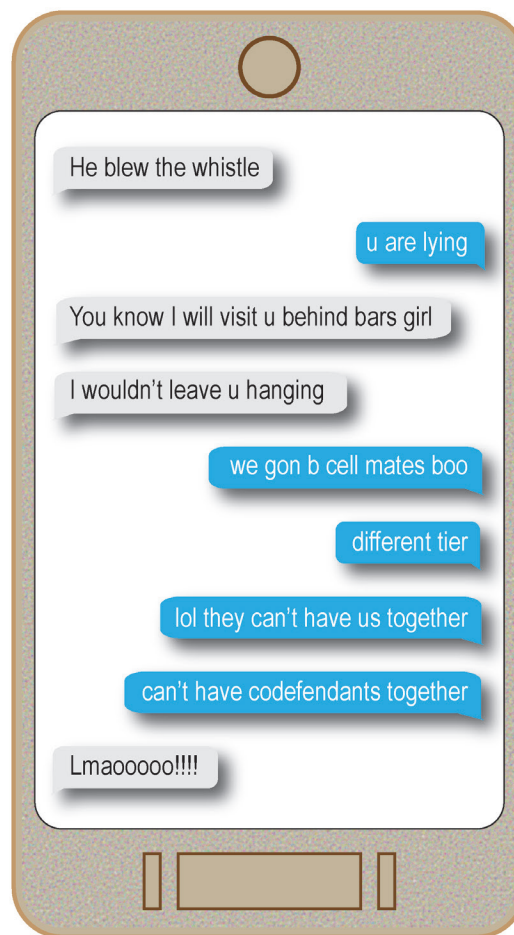
On November 17, 2016, Clark D. East was indicted for embezzlement of a bankruptcy estate.

According to the indictment, East obtained a loan from Sterns Bank, a member bank of the FHLBank of Minneapolis, to develop a property in Clearwater, Florida. East personally guaranteed the \$4,615,219 held by Sterns Bank for the development of the property.

East subsequently defaulted on the loan, and Sterns Bank obtained approval to sell the property at foreclosure. The day before the scheduled foreclosure sale, East filed for bankruptcy protection with the United States Bankruptcy Court. During the bankruptcy proceedings, East was ordered by the Court to sell the property and pay \$1.2 million in sales proceeds to Sterns Bank. Rather than repaying Sterns Bank, East allegedly embezzled \$828,854 of proceeds that were part of the bankruptcy estate and due to Sterns Bank.

### **Trial Conviction in Identity Theft Scheme, Virginia**

On February 16, 2017, Allise Jones was found guilty by a federal jury on charges of conspiracy to commit identity theft, conspiracy to commit access



This graphic represents text messages sent by the defendant (blue message bubbles). The content of this graphic was provided to the jury as a trial exhibit.

device fraud, access device fraud, and aggravated identity theft.

According to court records and evidence presented at trial, Jones conspired with others to use personally identifiable information (PII) associated with current and former employees of Freddie Mac and the Department of Veterans Affairs. The Freddie Mac PII was obtained from a computer located at Freddie Mac's headquarters. In total, Jones and her co-conspirators had illegal access to personal information from over 100 Department of Veterans Affairs employees and as many as 2,500 Freddie Mac employees. The schemers used the stolen



information to obtain fraudulent identification documents and credit accounts used to defraud financial institutions, retailers, and others. Jones, in particular, used the information to obtain credit cards that she used to purchase goods and services, such as plastic surgery, expensive jewelry, and travel.

## Outreach

OIG develops public-private partnerships where appropriate. We delivered 36 fraud awareness briefings to different audiences to raise awareness of OIG's law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed and intends to further strengthen ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; FDIC-OIG; IRS-CI; the Office of the Special Inspector General for the Troubled Asset Relief Program; FinCEN; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae's Mortgage Fraud Program and with Freddie Mac's Financial Fraud Investigation Unit.

During this reporting period OIG worked with additional local and state partners, including the Wayne County, Michigan, District Attorney's Office; the Sacramento County, California, District Attorney's Office; the Montgomery County, Maryland, Police Department; the California Attorney General's Office; the Mesquite, Texas, Police Department; the Tampa, Florida, Police Department; the Colorado Attorney General's Office; the Mississippi State Attorney General's Office; the Hillsborough County, Florida, Sheriff's Office; and the Florida Department of Law Enforcement.

## 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 may 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 72 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 means "convictions or administrative sanctions within the past three years based on fraud or similar misconduct in connection with the mortgage business."<sup>7</sup>

During this reporting period, OIG made 28 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program.



A summary of OIG’s referrals during the reporting period is captured in Figure 4 (see below).

**Figure 4. Administrative Actions from October 1, 2016, Through March 31, 2017**

Administrative Actions	
Suspension/Debarment Referrals	72
Referrals to FHFA Suspended Counterparty Program	28

# 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 financial crisis has shown 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 \$187.5 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 and briefings to congressional staff on OIG work.

### Hotline

During this reporting period, the OIG hotline continued to serve as a vehicle through which Agency, Enterprise, and FHLBank employees and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. The individuals reporting can choose to remain anonymous or disclose their identity.

### Close Coordination with Other Oversight Organizations

During the reporting period, OIG made numerous presentations to state and local law enforcement agencies, prosecutors, mortgage fraud working groups across the country, and individual federal agencies sometimes involved in mortgage fraud investigations, such as HUD-OIG, FBI, U.S. Postal Inspection Service, IRS-CI, and DOJ.

We maintained active participation in coordinated oversight activities during this reporting period:

- **FBI Cybercrimes Task Force.** The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG has assigned two special agents to it. This multiagency task

force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help prosecute cybercriminals and stop cyber attacks made against institutions maintaining PII, trade secrets, and financial data.

- **CIGIE.** OIG actively participates in several CIGIE committees and working groups:
  - The Inspection and Evaluation Committee
  - The Investigation Committee
  - The Audit 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 the Financial Stability Oversight Council (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. OIG is a permanent 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 the reporting period, OIG participated in a CIGFO working group audit that assessed FSOC's efforts to promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of large, interconnected bank holding companies and nonbank financial companies that the U.S. government will shield them from losses in the event of failure, also known as "too big to fail." The audit, which was issued on February 28, 2017, concluded that FSOC has made progress in promoting market discipline.

However, the wide range of views that still exists on the issue of "too big to fail" indicates that there is a lack of consensus regarding whether FSOC has eliminated expectations on the part of shareholders, creditors, and counterparties of large bank holding companies or nonbank financial companies that the federal government will shield them from losses in the event of failure.

## Private-Public 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 FHLBanks and the Enterprises to benefit from their insights and also make presentations to industry groups. Recent presentations include: the Texas Department of Insurance; Tucson, Arizona, bankruptcy trustees; Phoenix, Arizona, bankruptcy trustees; EDMI, Los Angeles; Center for NYC Neighborhoods; the National Insurance Crime Bureau; the Mortgage Bankers Associations of Kansas City, Kentucky, Puerto Rico, and Minnesota; the First Annual Disability and Aging Resource Faire; CoreLogic Mortgage Fraud and Evaluation Consortium; the International Association of Financial Crimes Investigators; the National Cyber-Forensics and Training Alliance; and local and regional banks.



# Appendices

## Appendix A: 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.

**CAMELSO:** FHFA's examiners use a uniform rating system called CAMELSO, under which each regulated entity and the Office of Finance is assigned a common composite rating based on an evaluation of various aspects of its operations. Specifically, the composite rating of an FHLBank, Fannie Mae, or Freddie Mac is based on an evaluation and rating of seven components: Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk.

**Conservatorship:** Conservatorship is 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.

**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.



**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, which oversees the GSEs' operations, and OIG. HERA also expanded Treasury's authority to provide financial support to the GSEs.

**Inspector General Act of 1978:** Legislation that authorizes 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 amends 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 Controls:** Internal control is a process effected by an entity's oversight body, management, and other personnel that provides 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.

**OIG Fiscal Year 2017:** OIG's FY17 covers October 1, 2016, through September 30, 2017.

**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 then must 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.

**Servicers:** Servicers act as intermediaries between mortgage borrowers and owners of the loans, such as the Enterprises or mortgage-backed securities investors. They collect the borrowers' mortgage payments, remit them to the owners of the loans, maintain appropriate records, and address delinquencies or defaults on behalf of the owners of the loans. For their services, they typically receive a percentage of the unpaid principal balance of the mortgage loans they service. The recent financial crisis has put more emphasis on servicers' handling of defaults, modifications, short sales, and foreclosures, in addition to their more traditional duty of collecting and distributing monthly mortgage payments.

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

**Straw Buyer:** A straw buyer is 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 never 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>AB 2015-01</b>	Advisory Bulletin 2015-01, <i>FHLBank Fraud Reporting</i>	<b>FinCEN</b>	Financial Crimes Enforcement Network
<b>Agency</b>	Federal Housing Finance Agency	<b>FHLBank</b>	Federal Home Loan Bank
<b>Blue Book</b>	<i>Quality Standards for Inspection and Evaluation</i>	<b>FISMA</b>	Federal Information Security Modernization Act of 2014
<b>CEO</b>	Chief Executive Officer	<b>FSOC</b>	Financial Stability Oversight Council
<b>CFO</b>	Chief Financial Officer	<b>FY17</b>	Fiscal Year 2017
<b>CIGFO</b>	Council of Inspectors General on Financial Oversight	<b>GAO</b>	Government Accountability Office
<b>CIGIE</b>	Council of the Inspectors General on Integrity and Efficiency	<b>GAGAS</b>	Generally Accepted Government Auditing Standards
<b>CSP</b>	Common Securitization Platform	<b>GPRA</b>	Government Performance and Results Act of 1993, as amended
<b>CSS</b>	Common Securitization Solutions, LLC	<b>GSE</b>	Government-Sponsored Enterprise
<b>DBR</b>	Division of Federal Home Loan Bank Regulation	<b>HERA</b>	Housing and Economic Recovery Act of 2008
<b>DER</b>	Division of Enterprise Regulation	<b>HFE</b>	Housing Finance Examiner
<b>DOC</b>	Division of Conservatorship	<b>HUD-OIG</b>	Department of Housing and Urban Development Office of Inspector General
<b>DOJ</b>	Department of Justice	<b>IG</b>	Inspector General
<b>DSI</b>	Discovery Sales, Inc.	<b>IRS-CI</b>	Internal Revenue Service-Criminal Investigation
<b>EIC</b>	Examiner-in-Charge	<b>IT</b>	Information Technology
<b>Enterprises</b>	Fannie Mae and Freddie Mac	<b>JTR</b>	JTR Real Estate, Inc.
<b>FBI</b>	Federal Bureau of Investigation	<b>MBS</b>	Mortgage-Backed Securities
<b>FDIC</b>	Federal Deposit Insurance Corporation	<b>MJLAG</b>	MJ Loan Auditor Group, LLC
<b>Federal Reserve</b>	Board of Governors of the Federal Reserve System	<b>MPG</b>	Metro Property Group
<b>FHFA</b>	Federal Housing Finance Agency	<b>MRA</b>	Matter Requiring Attention
		<b>NIST</b>	National Institute of Standards and Technology

<b>OA</b>	Office of Audits	<b>PCBank</b>	Pierce Commercial Bank
<b>OCC</b>	Office of the Comptroller of the Currency	<b>PCBHL</b>	PC Bank Home Loans
<b>OCom</b>	Office of Compliance and Special Projects	<b>PII</b>	Personally Identifiable Information
<b>OE</b>	Office of Evaluations	<b>PSPA</b>	Senior Preferred Stock Purchase Agreement
<b>OFHEO</b>	Office of Federal Housing Enterprise Oversight	<b>REO</b>	Real Estate Owned
<b>OI</b>	Office of Investigations	<b>RMBS</b>	Residential Mortgage-Backed Securities
<b>OIG</b>	Federal Housing Finance Agency Office of Inspector General	<b>ROE</b>	Report of Examination
<b>OMB</b>	Office of Management and Budget	<b>SA</b>	Special Agent
<b>ORA</b>	Office of Risk Analysis	<b>SAR</b>	Suspicious Activity Report
<b>PAR</b>	Performance and Accountability Report	<b>SocGen</b>	Société Générale S.A.
<b>PBGC-OIG</b>	Pension Benefit Guaranty Corporation Office of Inspector General	<b>TCRs</b>	Tips, Complaints, or Referrals
		<b>Treasury</b>	Department of the Treasury

## 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 transparency, 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 350 recommendations. Figure 5 (see page 62) summarizes OIG's recommendations that were made, pending, or closed during the reporting period.

A report with any recommendations still pending will remain in Figure 5 until all recommendations have been closed. Figure 6 (see page 97) lists OIG's audit, evaluation, compliance review, and other reports for which all of the recommendations contained within have been closed. Figure 7 (see page 102) summarizes OIG's outstanding unimplemented recommendations, and Figure 8 (see page 103) summarizes OIG's outstanding unimplemented recommendations by risk area. OIG publishes its Compendium of Open Recommendations on its website.



**Figure 5. Summary of OIG Recommendations**

No.	Recommendation	Report Name and Date	Status
<b>AUD-2017-002-1</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016</i> ( <a href="#">AUD-2017-002</a> , October 26, 2016)	Recommendation agreed to by OIG management; implementation of recommendation pending.
<b>AUD-2017-002-2</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016</i> ( <a href="#">AUD-2017-002</a> , October 26, 2016)	Recommendation agreed to by OIG management; implementation of recommendation pending.
<b>AUD-2017-002-3</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016</i> ( <a href="#">AUD-2017-002</a> , October 26, 2016)	Recommendation agreed to by OIG management; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-007-1</b> <b>AUD-2016-006-1</b> <b>AUD-2016-005-5</b>	<p>FHFA should revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance.</p>	<p><i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016); FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed (AUD-2016-005, September 30, 2016)</i></p>	<p>Closed— Recommendation rejected.</p>

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-007-2</b> <b>AUD-2016-006-2</b>	<p>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.</p>	<p><i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016)</i></p>	<p>Recommendation partially agreed to by FHFA; implementation of recommendation pending.</p>

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-007-3</b> <b>AUD-2016-006-3</b>	<p>FHFA should develop and implement guidance that clearly requires supervisory plans to identify and prioritize the planned targeted examinations that are to be completed for each supervisory cycle, in order to fully inform the ROE and CAMELSO ratings for that cycle.</p>	<p><i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</i> (<a href="#">AUD-2016-007</a>, September 30, 2016); <i>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</i> (<a href="#">AUD-2016-006</a>, September 30, 2016)</p>	<p>FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.</p>

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-007-4</b> <b>AUD-2016-006-4</b>	<p>FHFA should develop and implement a control that provides for the tracking and documentation of planned targeted examinations, through disposition, in DER's official system of record.</p>	<p><i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016)</i></p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>



No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-007-5</b> <b>AUD-2016-006-5</b>	FHFA should reinforce and hold EICs accountable to follow DER's requirement to fully document the risk-based justifications for changes to the supervisory plan, and that changes to supervisory plans are documented and approved by the EIC. Ensure that examiners follow DER Operating Procedures Bulletin 2013-DER-OPB-03.1 to fully document the risk-based justifications for changes to the supervisory plan, and that changes to supervisory plans are documented and approved by the EIC.	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</i> ( <a href="#">AUD-2016-007</a> , September 30, 2016); <i>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</i> ( <a href="#">AUD-2016-006</a> , September 30, 2016)	FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-005-1</b>	FHFA should ensure that risk assessments support the supervisory plans in terms of the targeted examinations included in those supervisory plans and the priority assigned to those targeted examinations.	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)	FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.
<b>AUD-2016-005-2</b>	FHFA should reinforce and hold the EICs accountable to meet FHFA's requirement for risk assessments to be updated semiannually, and as additional information is learned that causes significant changes to the risk profile, such information, from whatever sources, should be factored into the risk assessment during the next update.	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)	FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2016-005-3</b>	FHFA should direct DER to develop and implement controls to ensure that high-priority planned targeted examinations are completed before lower priority targeted examinations, unless the reason(s) for performing a lower priority targeted examination in lieu of a higher priority planned targeted examination is documented and risk based (e.g., change in process, delay in implementation).	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)	FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.
<b>AUD-2016-005-4</b>	FHFA should enhance DER guidance to provide a common definition for the priority assigned to targeted examinations and require examiners to document the basis of the priority assigned to targeted examinations.	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)	FHFA issued internal guidance in May 2016 that FHFA believes confirms its general agreement with the recommendation. FHFA plans to assess the effectiveness of that guidance in the first quarter of 2017. Recommendation remains open and will be monitored.
<b>AUD-2014-021-1</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Closed—Final action taken by OIG.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-021-2</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Closed—Final action taken by OIG.
<b>AUD-2014-021-3</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Recommendation partially agreed to by OIG management; implementation of recommendation pending.
<b>AUD-2014-021-4</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Closed—Final action taken by OIG.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-021-5</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Closed—Final action taken by OIG.
<b>AUD-2014-021-6</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014</i> ( <a href="#">AUD-2014-021</a> , September 30, 2014)	Closed—Final action taken by OIG.
<b>AUD-2014-019-1</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.



No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-019-2</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-019-3</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-019-4</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2014-019-5</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-019-6</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-019-7</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-019-8</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014</i> ( <a href="#">AUD-2014-019</a> , September 26, 2014)	Closed—Final action taken by FHFA.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-008-1</b>	FHFA should perform supervisory review and follow-up to ensure that Fannie Mae takes action to change the portal message type from automatic override to manual override or fatal for the 25 proprietary messages related to underwriting requirements, which will require lenders to take action to address the appraisal-related messages warning of potential underwriting violations prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA. <sup>a</sup>
<b>AUD-2014-008-2</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to develop and implement additional proprietary messages related to its property underwriting requirements.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-008-3</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to establish the additional proprietary messages related to property underwriting requirements as manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA. <sup>b</sup>
<b>AUD-2014-008-4</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review the type of message related to the existing nine proprietary messages for consideration of converting the type of message from automatic override to manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.

<sup>a</sup>FHFA indicated that it had substantially complied with the recommendation by changing most of the portal messages, and indicated reasons for not changing the remaining proprietary messages related to underwriting requirements. OIG considered the actions taken and the Agency's explanation, and determined to close the recommendation as final action taken.

<sup>b</sup>FHFA indicated that it substantially implemented the recommendation and provided additional explanation for maintaining specific messages as automatic override. OIG considered the actions taken and the updated information provided by the Agency, and determined to close the recommendation as final action taken.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-008-5</b>	FHFA should perform supervisory review of both Enterprises to ensure the portal warning messages distinguish between inactive appraisers and unverified appraisers, as of the date the appraisal is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2014-008-6</b>	FHFA should perform supervisory review of both Enterprises to ensure that the portal tests whether appraisers are licensed and active at the time the appraisal is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2014-008-7</b>	FHFA should perform supervisory review of both Enterprises to change the message type, for messages relating to appraiser license status, from automatic override to manual override or fatal, which will require lenders to take action to address the message prior to delivering the loan. This action can be taken once the system logic is fixed and the historical records are available to determine the status of an appraiser's license at the time the appraisal work is performed, and the states are updating in real time.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2014-008-8</b>	FHFA should perform supervisory review of both Enterprises to seek remedy for the 23 loans, valued at \$3.4 million, delivered to the Enterprises by the two suspended appraisers in violation of underwriting requirements.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-008-9</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to implement an internal control policy and related procedures to follow up on appraisal license status messages generated by the portal.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-008-10</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review loans purchased since the portal's inception that generated messages related to the appraiser's license status.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-008-11</b>	FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to use the results of the review to repurchase the loans that contained appraisals that were performed by unlicensed appraisers, as appropriate.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-008-12</b>	FHFA should pursue retention of historical records of the status of appraisers' licenses in the National Registry of Appraisers sufficient to determine the status of appraisers' licenses at the time the appraisal work is performed.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2014-008-13</b>	FHFA should pursue having the National Registry of Appraisers updated to reflect the status of state-certified and -licensed appraisers on a real-time basis.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.



No.	Recommendation	Report Name and Date	Status
<b>AUD-2014-008-14</b>	FHFA should perform supervisory review and follow-up to ensure that the Enterprises develop and implement the portal as intended by FHFA's uniform mortgage data program directive.	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)	Closed—Final action taken by FHFA.
<b>AUD-2012-003-1</b>	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.	<i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</i> ( <a href="#">AUD-2012-003</a> , March 22, 2012)	Based on COM-2016-001, this recommendation was reopened. Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>AUD-2012-003-2</b>	FHFA's Division of Examination Program and Support should enhance existing examination guidance for assessing adherence to underwriting standards and variances from them.	<i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</i> ( <a href="#">AUD-2012-003</a> , March 22, 2012)	Closed—Final action taken by FHFA.
<b>EVL-2017-004-1</b>	FHFA should develop, communicate to DER examination staff, and implement an examiner rotation practice or policy that explains the timeframe for examiner rotation, whether examiners would be rotated across or within Enterprises, and which types of examiners, in addition to the EICs, would be subject to the rotation practice or policy.	<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions</i> ( <a href="#">EVL-2017-004</a> , March 28, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2017-004-2</b>	FHFA should direct DER to implement a mechanism to track and document over time DER examiner assignments by Enterprise and risk area to facilitate implementation of the examiner rotation practice or policy.	<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions</i> ( <a href="#">EVL-2017-004</a> , March 28, 2017)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2017-002-1</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].	<i>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</i> ( <a href="#">EVL-2017-002</a> , December 21, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-009-1</b>	<p>FHFA should revise its Examination Manual to:</p> <ul style="list-style-type: none"> <li>• Require that each final ROE be addressed and delivered to the board of directors of an Enterprise by DER examiners to eliminate any confusion over the meaning of the term "issue;"</li> <li>• Establish a timetable for submission of the final ROE to each Enterprise's board of directors and for DER's presentation of the ROE results, conclusions, and supervisory concerns to each Enterprise board;</li> <li>• Require each Enterprise board to reflect its review of each annual ROE in meeting minutes; and</li> <li>• Require each Enterprise board to reflect its review and approval of its written response to the ROE in its meeting minutes.</li> </ul>	<i>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</i> ( <a href="#">EVL-2016-009</a> , July 14, 2016)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-009-2</b>	<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 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><i>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</i> (<a href="#">EVL-2016-009</a>, July 14, 2016)</p>	<p>Recommendation partially agreed to by FHFA; implementation of recommendation pending.</p>
<b>EVL-2016-009-3</b>	<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><i>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</i> (<a href="#">EVL-2016-009</a>, July 14, 2016)</p>	<p>Closed—Recommendation rejected.</p>

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-008-1</b>	FHFA should direct DER to develop and adopt a standard template for Enterprise ROEs, issue instructions for completing that template, and promulgate guidance that establishes baseline elements that must be included in each ROE, such as: clear communication of deficient, unsafe, or unsound practices; explanation of how those practices gave rise to supervisory concerns and deficiencies; and prioritization of remediation of supervisory concerns and deficiencies.	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-008-2</b>	FHFA should direct DER to revise its guidance to require ROEs to focus the boards' attention on 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.	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)	Closed—Recommendation rejected.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-008-3</b>	FHFA should develop written procedures for the “fatal flaw” review of the ROE by Enterprise management that establish the purpose of the review, its duration, and a standard message for conveying this information to Enterprise management.	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-007-1</b>	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.	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-007-2</b>	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.	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Recommendation partially agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-007-3</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).	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Closed—Recommendation rejected.
<b>EVL-2016-007-4</b>	FHFA should require DER to conduct and document, in an Analysis Memorandum or other work paper, an independent assessment of the adequacy of each Enterprise MRA remediation plan and the basis upon which such plan is either accepted or rejected, and to maintain that document in DER's supervisory record-keeping system.	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-007-5</b>	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.	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Closed—Recommendation rejected.



No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-007-6</b>	FHFA should require DER, when evaluating whether to close an MRA, to conduct and document (in an Analysis Memorandum or other work paper) an independent analysis of the adequacy and sustainability of the Enterprise's remediation activity, or where appropriate, the adequacy of the Enterprise's internal audit validation work, and maintain that document in DER's supervisory record-keeping system.	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-006-1</b>	FHFA should direct the Fannie Mae Board to enhance Fannie Mae's existing cyber risk management policies to: a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates; b. Describe information to be reported to the Board and committees; c. Include a cyber risk framework and cyber risk appetite.	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> ( <a href="#">EVL-2016-006</a> , March 31, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-006-2</b>	FHFA should instruct the Fannie Mae Board to establish and communicate a desired target state of cyber risk management for Fannie Mae that identifies and prioritizes which risks to avoid, accept, mitigate, or transfer through insurance.	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> ( <a href="#">EVL-2016-006</a> , March 31, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-006-3</b>	<p>FHFA should direct the Fannie Mae Board to oversee management's efforts to leverage industry standards to:</p> <ol style="list-style-type: none"> <li>Protect against and detect existing threats;</li> <li>Remain informed on emerging risks;</li> <li>Enable timely response and recovery in the event of a breach; and</li> <li>Achieve the desired target state of cyber risk management identified in recommendation 2 above within a time period agreed upon by the Board.</li> </ol>	<p><i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> (<a href="#">EVL-2016-006</a>, March 31, 2016)</p>	<p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p>
<b>EVL-2016-005-1</b>	<p>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.</p>	<p><i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i> (<a href="#">EVL-2016-005</a>, March 31, 2016)</p>	<p>Closed—Final action taken by FHFA.</p>
<b>EVL-2016-005-2</b>	<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><i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i> (<a href="#">EVL-2016-005</a>, March 31, 2016)</p>	<p>Recommendation partially agreed to by FHFA; implementation of recommendation pending.</p>

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-005-3</b>	FHFA should revise its supervision guidance to require DER to identify all open MRAs in the annual, written ROE and the expected timetable to complete outstanding remediation activities.	<i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i> ( <a href="#">EVL-2016-005</a> , March 31, 2016)	Closed—Final action taken by FHFA.
<b>EVL-2016-005-4</b>	FHFA should include in the year's ROE, to be issued to each Enterprise for 2015 supervisory activities, all open MRAs and the expected timetable to complete outstanding remediation activities for each open MRA.	<i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i> ( <a href="#">EVL-2016-005</a> , March 31, 2016)	Closed—Final action taken by FHFA.
<b>EVL-2016-004-1</b>	FHFA should review FHFA's existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the OCC, Federal Reserve, 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.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Closed—Recommendation rejected.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-004-2</b>	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.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Closed—Recommendation rejected.
<b>EVL-2016-004-3</b>	Because DER and DBR examiners are bound to follow FHFA's requirements and guidance, FHFA should compare the processes followed by DBR for the form, content, and issuance of an MRA, standards for a proposed remediation plan, approval authority for a proposed remediation plan, and real-time assessments at regular intervals of the effectiveness and timeliness of MRA remediation efforts to the processes followed by DER.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Closed—Final action taken by FHFA.
<b>EVL-2016-004-4</b>	Based on the results of the review in recommendation 3, FHFA should assess whether guidance issued and processes followed by either DER or DBR should be enhanced, and make such enhancements.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-004-5</b>	FHFA should provide mandatory training for all FHFA examiners on FHFA requirements, guidance, and processes and DER and DBR guidance for MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-004-6</b>	FHFA should evaluate the results of quality control reviews conducted by DER and DBR to identify and address gaps and weaknesses involving MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-003-1</b>	FHFA should comply with FSOC recommendations to take formal and timely action to compare existing regulatory guidance to appropriate elements of the NIST Framework and identify the gaps between existing regulatory guidance and appropriate elements of the NIST Framework.	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i> ( <a href="#">EVL-2016-003</a> , March 28, 2016)	Closed—Final action taken by FHFA.
<b>EVL-2016-003-2</b>	FHFA should comply with FSOC recommendations to determine the priority in which to address the gaps.	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i> ( <a href="#">EVL-2016-003</a> , March 28, 2016)	Closed—Final action taken by FHFA.
<b>EVL-2016-003-3</b>	FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i> ( <a href="#">EVL-2016-003</a> , March 28, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-003-4</b>	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.	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i> ( <a href="#">EVL-2016-003</a> , March 28, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-001-1</b>	FHFA should implement detailed risk assessment guidance that provides minimum requirements for risk assessments that facilitate comparable analyses for each Enterprise's risk positions, including common criteria for determining whether risk levels are high, medium, or low, year over year.	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</i> ( <a href="#">EVL-2016-001</a> , January 4, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-001-2</b>	FHFA should implement detailed risk assessment guidance that provides standard requirements for format and the documentation necessary to support conclusions in order to facilitate comparisons between Enterprises and reduce variability among DER's risk assessments for each Enterprise and between the Enterprises.	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</i> ( <a href="#">EVL-2016-001</a> , January 4, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2016-001-3</b>	FHFA should direct DER to train its examiners-in-charge and exam managers in the preparation of semi-annual risk assessments, using enhanced risk assessment guidance consistent with recommendations EVL-2016-001-1 and EVL-2016-001-2.	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels</i> ( <a href="#">EVL-2016-001</a> , January 4, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.



No.	Recommendation	Report Name and Date	Status
<b>EVL-2015-007-1</b>	FHFA should ensure that DER's recently adopted procedures for quality control reviews meet the requirements of Supervision Directive 2013-01 and require DER to document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review.	<i>Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations</i> ( <a href="#">EVL-2015-007</a> , September 30, 2015)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2015-007-2</b>	FHFA should evaluate the effectiveness of the new quality control procedures, as implemented, one year after adoption.	<i>Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations</i> ( <a href="#">EVL-2015-007</a> , September 30, 2015)	Closed—Final action taken by FHFA.
<b>EVL-2015-003-1</b>	FHFA should test the new human resource system to ensure that it will provide data sufficient to enable the Agency to perform comprehensive analyses of workforce issues.	<i>Women and Minorities in FHFA's Workforce</i> ( <a href="#">EVL-2015-003</a> , January 13, 2015)	Closed—Final action taken by FHFA.
<b>EVL-2015-003-2</b>	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	<i>Women and Minorities in FHFA's Workforce</i> ( <a href="#">EVL-2015-003</a> , January 13, 2015)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2015-003-3</b>	FHFA should adopt a diversity and inclusion strategic plan.	<i>Women and Minorities in FHFA's Workforce</i> ( <a href="#">EVL-2015-003</a> , January 13, 2015)	Closed—Final action taken by FHFA.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2015-003-4</b>	FHFA should research opportunities to partner with inner-city and other high schools, where feasible, to ensure compliance with HERA.	<i>Women and Minorities in FHFA's Workforce</i> ( <a href="#">EVL-2015-003</a> , January 13, 2015)	Closed—Final action taken by FHFA.
<b>EVL-2014-002-1</b>	FHFA should review its implementation of the 2013 Enterprise examination plans and document the extent to which resource limitations, among other things, may have impeded their timely and thorough execution.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> ( <a href="#">EVL-2014-002</a> , December 19, 2013)	Closed—Final action taken by FHFA.
<b>EVL-2014-002-2</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> ( <a href="#">EVL-2014-002</a> , December 19, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2014-002-3</b>	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> ( <a href="#">EVL-2014-002</a> , December 19, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2013-012-1</b>	FHFA should ensure Fannie Mae takes the actions necessary to reduce servicer reimbursement processing errors. These actions should include utilizing its process accuracy data in a more effective manner and implementing a red flag system.	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> ( <a href="#">EVL-2013-012</a> , September 18, 2013)	Closed—Final action taken by FHFA.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2013-012-2</b>	FHFA should require Fannie Mae to: <ul style="list-style-type: none"> <li>• quantify and aggregate its overpayments to servicers regularly;</li> <li>• implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>• report its findings and progress to FHFA periodically.</li> </ul>	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> ( <a href="#">EVL-2013-012</a> , September 18, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2013-012-3</b>	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> ( <a href="#">EVL-2013-012</a> , September 18, 2013)	Closed—Recommendation rejected.
<b>EVL-2013-010-1</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</i> ( <a href="#">EVL-2013-010</a> , August 22, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2013-010-2</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</i> ( <a href="#">EVL-2013-010</a> , August 22, 2013)	Closed—Final action taken by FHFA.
<b>EVL-2013-010-3</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</i> ( <a href="#">EVL-2013-010</a> , August 22, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2013-010-4</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</i> ( <a href="#">EVL-2013-010</a> , August 22, 2013)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>EVL-2012-005-1</b>	<p>FHFA should continue its ongoing horizontal review of unsecured credit practices at the FHLBanks by:</p> <ul style="list-style-type: none"> <li>• following up on any potential evidence of violations of the existing regulatory limits and taking supervisory and enforcement actions as warranted; and</li> <li>• determining the extent to which inadequate systems and controls may compromise the FHLBanks' capacity to comply with regulatory limits and taking any supervisory actions necessary to correct such deficiencies as warranted.</li> </ul>	<i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i> ( <a href="#">EVL-2012-005</a> , June 28, 2012)	Closed—Final action taken by FHFA.
<b>EVL-2012-005-2</b>	<p>To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of:</p> <ul style="list-style-type: none"> <li>• establishing maximum overall exposure limits;</li> <li>• lowering the existing individual counterparty limits; and</li> <li>• ensuring that the unsecured exposure limits are consistent with the FHLBank System's housing mission.</li> </ul>	<i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i> ( <a href="#">EVL-2012-005</a> , June 28, 2012)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
<b>COM-2016-004-1</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.	<i>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</i> ( <a href="#">COM-2016-004</a> , June 16, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>COM-2016-004-2</b>	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to DOC for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	<i>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</i> ( <a href="#">COM-2016-004</a> , June 16, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>COM-2015-001-1</b>	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 GSE examinations.	<i>OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</i> ( <a href="#">COM-2015-001</a> , July 29, 2015)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-004-1</b>	Public release by OIG of 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).	<i>Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue</i> ( <a href="#">OIG-2017-004</a> , March 23, 2017)	Awaiting management response.

No.	Recommendation	Report Name and Date	Status
<b>OIG-2017-004-2</b>	Public release by OIG of 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).	<i>Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue</i> ( <a href="#">OIG-2017-004</a> , March 23, 2017)	Awaiting management response.
<b>OIG-2017-001-1</b>	FHFA should cease using FHFA vehicles and employees to provide transportation to Agency employees in a manner that is inconsistent with federal law and regulations.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-001-2</b>	FHFA should cease using FHFA employees to research or book personal travel for [the subject] or the subject's family in contravention of 5 C.F.R. § 2635.705(b).	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-001-3</b>	FHFA should revise its Vehicle Use Policy to track the requirements of Section 1344 and implementing regulations.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.



No.	Recommendation	Report Name and Date	Status
<b>OIG-2017-001-4</b>	FHFA should maintain detailed usage logs for all leased vehicles.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-001-5</b>	FHFA should train employees tasked with providing FHFA transportation to [the subject] and other FHFA employees with applicable statutory and regulatory requirements.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.
<b>OIG-2017-001-6</b>	FHFA should adopt appropriate internal controls to ensure that the findings required by Section 1344 are made by the appropriate Agency employee, are documented in writing, and that requisite notices are provided.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report Name and Date	Status
OIG-2017-001-7	FHFA should retain all documentation relating to provision of transportation under Section 1344.	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)	Recommendation agreed to by FHFA; implementation of recommendation pending.

**Figure 6. Summary of OIG Reports Where All Recommendations Are Closed**

Report	No. of Recommendations
<i>Review of FHFA's Tracking and Rating of the 2013 Scorecard Objective for the New Representation and Warranty Framework Reveals Opportunities to Strengthen the Process (AUD-2016-002)</i>	3
<i>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 (AUD-2016-001)</i>	2
<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program - 2015 (AUD-2015-003)</i>	5
<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program - 2015 (AUD-2015-002)</i>	3
<i>CliftonLarsenAllen, LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program - 2014 (AUD-2014-020)</i>	6
<i>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018)</i>	1
<i>FHFA Oversight of Freddie Mac's Information Technology Investments (AUD-2014-017)</i>	3
<i>FHFA's Representation and Warranty Framework (AUD-2014-016)</i>	2
<i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices (AUD-2014-015)</i>	3
<i>FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages (AUD-2014-014)</i>	2
<i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers (AUD-2014-013)</i>	3
<i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections (AUD-2014-012)</i>	2
<i>FHFA's Use of Government Travel Cards (AUD-2014-010)</i>	4
<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands (AUD-2014-009)</i>	3
<i>FHFA's Implementation of Active Directory (AUD-2014-007)</i>	4
<i>FHFA's Use of Government Purchase Cards (AUD-2014-006)</i>	4

Report	No. of Recommendations
<i>FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005)</i>	4
<i>FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties (AUD-2014-004)</i>	3
<i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened (AUD-2014-003)</i>	6
<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Office of Inspector General's Information Security Program - 2013 (AUD-2014-002)</i>	4
<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program - 2013 (AUD-2014-001)</i>	15
<i>FHFA Can Strengthen Controls over Its Office of Quality Assurance (AUD-2013-013)</i>	7
<i>Additional FHFA Oversight Can Improve the Real Estate Owned Pilot Program (AUD-2013-012)</i>	3
<i>FHFA Can Improve Its Oversight of Fannie Mae's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-011)</i>	1
<i>FHFA Can Improve Its Oversight of Freddie Mac's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-010)</i>	4
<i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs (AUD-2013-009)</i>	5
<i>FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws (AUD-2013-008)</i>	1
<i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements (AUD-2013-007)</i>	9
<i>FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups (AUD-2013-006)</i>	2
<i>FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac (AUD-2013-004)</i>	2
<i>CliftonLarsonAllen LLP's Evaluation of the Federal Housing Finance Agency's Information Security Program - 2012 (AUD-2013-003)</i>	10
<i>FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc. (AUD-2013-002)</i>	5

Report	No. of Recommendations
<i>FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales (AUD-2013-001)</i>	3
<i>CliftonLarsonAllen LLP's Audit of FHFA's Controls and Protocols over Sensitive and Proprietary Information Collected and Exchanged with the Financial Stability Oversight Council (AUD-2012-009)</i>	6
<i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions (AUD-2012-008)</i>	9
<i>FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Serviceers (AUD-2012-007)</i>	2
<i>FHFA's Call Report System (AUD-2012-006)</i>	3
<i>FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned (AUD-2012-005)</i>	1
<i>FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management (AUD-2012-004)</i>	7
<i>FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors (AUD-2012-001)</i>	5
<i>FHFA's Oversight of Fannie Mae's Default-Related Legal Services (AUD-2011-004)</i>	3
<i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation - 2011 (AUD-2011-003)</i>	9
<i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program - 2011 (AUD-2011-002)</i>	5
<i>Audit of the Federal Housing Finance Agency's Consumer Complaints Process (AUD-2011-001)</i>	3
<i>FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose (EVL-2015-006)</i>	4
<i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive (EVL-2015-004)</i>	5
<i>Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities (EVL-2015-001)</i>	1
<i>Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims (EVL-2014-011)</i>	2
<i>FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs (EVL-2014-009)</i>	1

Report	No. of Recommendations
<i>Status of the Development of the Common Securitization Platform (EVL-2014-008)</i>	2
<i>Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks (EVL-2014-006)</i>	1
<i>FHFA's Reporting of Federal Home Loan Bank Director Expenses (EVL-2014-005)</i>	2
<i>FHFA's Oversight of the Servicing Alignment Initiative (EVL-2014-003)</i>	3
<i>FHFA's Oversight of Derivative Counterparty Risk (ESR-2014-001)</i>	1
<i>FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America (EVL-2013-009)</i>	1
<i>FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit (EVL-2013-008)</i>	2
<i>FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees (EVL-2013-005)</i>	2
<i>FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs (EVL-2013-04)</i>	3
<i>Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-03)</i>	3
<i>FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001)</i>	1
<i>FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters (EVL-2012-009)</i>	4
<i>Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers (EVL-2012-008)</i>	4
<i>Follow-up on Freddie Mac's Loan Repurchase Process (EVL-2012-007)</i>	1
<i>FHFA's Certifications for the Preferred Stock Purchase Agreements (EVL-2012-006)</i>	2
<i>Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Convention and Exposition (ESR-2012-004)</i>	2
<i>FHFA's Oversight of the Enterprises' Charitable Activities (ESR-2012-003)</i>	2
<i>Evaluation of FHFA's Management of Legal Fees for Indemnified Executives (EVL-2012-002)</i>	2
<i>FHFA's Oversight of Troubled Federal Home Loan Banks (EVL-2012-001)</i>	3



Report	No. of Recommendations
<i>Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America (EVL-2011-006)</i>	2
<i>Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs (EVL-2011-005)</i>	4
<i>Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk (EVL-2011-004)</i>	3
<i>Evaluation of FHFA's Role in Negotiating Fannie Mae's and Freddie Mac's Responsibilities in Treasury's Making Home Affordable Program (EVL-2011-003)</i>	1
<i>Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs (EVL-2011-002)</i>	8
<i>Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform (EVL-2011-001)</i>	2
<i>Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002)</i>	2

Figure 7 (see below) 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. At the end of the semiannual period, OIG had 62 open recommendations, including 47 issued before October 1, 2016, and 19 closed, rejected recommendations, all of which were issued before October 1, 2016. These unimplemented recommendations come from 35 different reports.

Questioned and unsupported costs and funds put to better use identified by OIG have the potential to produce savings. Recommendation AUD-2014-005-1, which was rejected by FHFA, had \$5,015,505 in funds put to better use. OIG also identified questioned costs during a prior reporting period of \$48,229,370. (See OIG, *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* (COM 2016-004, June 16, 2016), online at [www.fhfaig.gov/Reports/ManagementAlerts](http://www.fhfaig.gov/Reports/ManagementAlerts).) During the current reporting period, in OIG-2017-002, OIG questioned costs of \$24,200,000. Taken together, the questioned and unsupported costs and funds put to better use identified by OIG in the unimplemented recommendation and reports could result in \$77,444,875 in aggregate savings.

Figure 8 (see page 103) lists OIG’s outstanding unimplemented recommendations, including both open recommendations and closed, rejected recommendations, organized by risk area. Summaries for all reports are available at [www.fhfaig.gov](http://www.fhfaig.gov) or through the links provided in the accompanying table.

**Figure 7. Summary of OIG Outstanding Unimplemented Recommendations**

Fiscal Year	Number of Unimplemented Recommendations	Total Number of Reports with Unimplemented Recommendations	Dollar Value of Aggregate Potential Cost Savings
<b>2011</b>	0 open recommendations 0 closed, rejected recommendations	0	\$-
<b>2012</b>	2 open recommendations 0 closed, rejected recommendations	2	\$-
<b>2013</b>	4 open recommendations 1 closed, rejected recommendations	2	\$-
<b>2014</b>	8 open recommendations 8 closed, rejected recommendations	10	\$5,015,505
<b>2015</b>	3 open recommendations 1 closed, rejected recommendations	4	\$-
<b>2016</b>	30 open recommendations 9 closed, rejected recommendations	12	\$-
<b>2017</b>	15 open recommendations 0 closed, rejected recommendations	5	\$-
<b>Total</b>	<b>62 open recommendations</b> <b>19 closed, rejected recommendations</b>	<b>35</b>	<b>\$5,015,505</b>

**Figure 8. Summary of OIG Open Recommendations and Closed, Unimplemented Recommendations**

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Open Recommendations</b>			
<b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>	<b>Conservatorship: Non-Delegated Responsibilities</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	<i>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 href="#">COM-2016-004</a>, June 16, 2016)</i>
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to DOC for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	Improved oversight	<i>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 href="#">COM-2016-004</a>, June 16, 2016)</i>
<b>Development of Common Securitization Platform</b>	<b>Conservatorship: Delegated Responsibilities</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	<i>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure (<a href="#">EVL-2013-010</a>, August 22, 2013)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Review and Enhancement of Underwriting Standards	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances, including escalation of unresolved issues reflecting potential lack of agreement.	Improved oversight	<i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</i> ( <a href="#">AUD-2012-003</a> , March 22, 2012); see also <i>Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances</i> ( <a href="#">COM-2016-001</a> , December 17, 2015)
Conflicts of Interest	Public release by OIG of 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	<i>Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue</i> ( <a href="#">OIG-2017-004</a> , March 23, 2017)
Examiner Capacity	<b>Supervision</b>		
	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> ( <a href="#">EVL-2014-002</a> , December 19, 2013)
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	<i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i> ( <a href="#">EVL-2014-002</a> , December 19, 2013)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Accreditation of Examiners	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 GSE examinations.	Improved quality	<i>OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</i> ( <a href="#">COM-2015-001</a> , July 29, 2015)
Examiner Rotation	FHFA should develop, communicate to DER examination staff, and implement an examiner rotation practice or policy that explains the timeframe for examiner rotation, whether examiners would be rotated across or within Enterprises, and which types of examiners, in addition to the EICs, would be subject to the rotation practice or policy.	Improved supervision	<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions</i> ( <a href="#">EVL-2017-004</a> , March 28, 2017)
	FHFA should direct DER to implement a mechanism to track and document over time DER examiner assignments by Enterprise and risk area to facilitate implementation of the examiner rotation practice or policy.	Improved supervision	<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions</i> ( <a href="#">EVL-2017-004</a> , March 28, 2017)
Quality Control	FHFA should ensure that DER's recently adopted procedures for quality control reviews meet the requirements of Supervision Directive 2013-01 and require DER to document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review.	Improved quality	<i>Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations</i> ( <a href="#">EVL-2015-007</a> , September 30, 2015)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Risk Assessments for Supervisory Planning	FHFA should implement detailed risk assessment guidance that provides minimum requirements for risk assessments that facilitate comparable analyses for each Enterprise's risk positions, including common criteria for determining whether risk levels are high, medium, or low, year over year.	Improved understanding of risk	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (<a href="#">EVL-2016-001</a>, January 4, 2016)</i>
	FHFA should implement detailed risk assessment guidance that provides standard requirements for format and the documentation necessary to support conclusions in order to facilitate comparisons between Enterprises and reduce variability among DER's risk assessments for each Enterprise and between the Enterprises.	Improved understanding of risk	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (<a href="#">EVL-2016-001</a>, January 4, 2016)</i>
	FHFA should direct DER to train its examiners-in-charge and exam managers in the preparation of semi-annual risk assessments, using enhanced risk assessment guidance consistent with recommendations EVL-2016-001-1 and EVL-2016-001-2.	Improved understanding of risk	<i>Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels (<a href="#">EVL-2016-001</a>, January 4, 2016)</i>



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Targeted Examinations Completed	FHFA should ensure that risk assessments support the supervisory plan in terms of the targeted examinations included in those supervisory plans and the priority assigned to those targeted examinations.	Improved supervision	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed (<a href="#">AUD-2016-005</a>, September 30, 2016)</i>
	FHFA should reinforce and hold the EICs accountable to meet FHFA's requirement for risk assessments to be updated semiannually, and as additional information is learned that causes significant changes to the risk profile, such information, from whatever sources, should be factored into the risk assessment during the next update.	Improved supervision	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed (<a href="#">AUD-2016-005</a>, September 30, 2016)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should direct DER to develop and implement controls to ensure that high-priority planned targeted examinations are completed before lower priority targeted examinations, unless the reason(s) for performing a lower priority targeted examination in lieu of a higher priority planned targeted examination is documented and risk based (e.g., change in process, delay in implementation).	Improved supervision	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)
	FHFA should enhance DER guidance to provide a common definition for the priority assigned to targeted examinations and require examiners to document the basis of the priority assigned to targeted examinations.	Improved supervision	<i>FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</i> ( <a href="#">AUD-2016-005</a> , September 30, 2016)

Specific Risk to be Mitigated	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	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should develop and implement guidance that clearly requires supervisory plans to identify and prioritize the planned targeted examinations that are to be completed for each supervisory cycle, in order to fully inform the ROE and CAMELSO ratings for that cycle.	Improved supervision	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should develop and implement a control that provides for the tracking and documentation of planned targeted examinations, through disposition, in DER's official system of record.	Improved supervision	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Oversight of Enterprise Remediation of Deficiencies	FHFA should reinforce and hold EICs accountable to follow DER's requirement to fully document the risk-based justifications for changes to the supervisory plan, and that changes to supervisory plans are documented and approved by the EIC. Ensure that examiners follow DER Operating Procedures Bulletin 2013-DER-OPB-03.1 to fully document the risk-based justifications for changes to the supervisory plan, and that changes to supervisory plans are documented and approved by the EIC.	Improved supervision	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (<a href="#">AUD-2016-007</a>, September 30, 2016); 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 href="#">AUD-2016-006</a>, September 30, 2016)</i>
	Based on the results of the review in recommendation 3, FHFA should assess whether guidance issued and processes followed by either DER or DBR should be enhanced, and make such enhancements.	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies (<a href="#">EVL-2016-004</a>, March 29, 2016)</i>
	FHFA should provide mandatory training for all FHFA examiners on FHFA requirements, guidance, and processes and DER and DBR guidance for MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies (<a href="#">EVL-2016-004</a>, March 29, 2016)</i>



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Communication of Deficiencies to Enterprise Boards	FHFA should evaluate the results of quality control reviews conducted by DER and DBR to identify and address gaps and weaknesses involving MRA issuance, review and approval of proposed remediation plans, and oversight of MRA remediation.	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)
	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.	Improved Board oversight	<i>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</i> ( <a href="#">EVL-2016-005</a> , March 31, 2016)
	<p>FHFA should revise its <i>Examination Manual</i> to:</p> <ul style="list-style-type: none"> <li>• Require that each final ROE be addressed and delivered to the board of directors of an Enterprise by DER examiners to eliminate any confusion over the meaning of the term "issue;"</li> <li>• Establish a timetable for submission of the final ROE to each Enterprise's board of directors and for DER's presentation of the ROE results, conclusions, and supervisory concerns to each Enterprise board;</li> <li>• Require each Enterprise board to reflect its review of each annual ROE in meeting minutes; and</li> <li>• Require each Enterprise board to reflect its review and approval of its written response to the ROE in its meeting minutes.</li> </ul>	Improved Board oversight	<i>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</i> ( <a href="#">EVL-2016-009</a> , July 14, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Assessing Remediation of Deficiencies	<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 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>	Improved Board oversight	<i>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</i> ( <a href="#">EVL-2016-009</a> , 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	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)
	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.	Improved remediation of deficiencies	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Identification of Deficiencies and Their Root Causes	FHFA should require DER to conduct and document, in an Analysis Memorandum or other work paper, an independent assessment of the adequacy of each Enterprise MRA remediation plan and the basis upon which such plan is either accepted or rejected, and to maintain that document in DER's supervisory record-keeping system.	Improved remediation of deficiencies	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)
	FHFA should require DER, when evaluating whether to close an MRA, to conduct and document (in an Analysis Memorandum or other work paper) an independent analysis of the adequacy and sustainability of the Enterprise's remediation activity, or where appropriate, the adequacy of the Enterprise's internal audit validation work, and maintain that document in DER's supervisory record-keeping system.	Improved remediation of deficiencies	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)
	FHFA should direct DER to develop and adopt a standard template for Enterprise ROEs, issue instructions for completing that template, and promulgate guidance that establishes baseline elements that must be included in each ROE, such as: clear communication of deficient, unsafe, or unsound practices; explanation of how those practices gave rise to supervisory concerns or deficiencies; and prioritization of remediation of supervisory concerns and deficiencies.	Improved Board oversight	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Extension of Unsecured Credit by Federal Home Loan Banks	FHFA should develop written procedures for the “fatal flaw” review of the ROE by Enterprise management that establish the purpose of the review, its duration, and a standard message for conveying this information to Enterprise management.	Improved Board oversight	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)
	<p>To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of:</p> <ul style="list-style-type: none"> <li>• establishing maximum overall exposure limits;</li> <li>• lowering the existing individual counterparty limits; and</li> <li>• ensuring that the unsecured exposure limits are consistent with the Federal Home Loan Bank System's housing mission.</li> </ul>	Improved compliance	<i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i> ( <a href="#">EVL-2012-005</a> , June 28, 2012)
Reliability of Appraisal Data	<b>Counterparties</b>		
	FHFA should perform supervisory review of both Enterprises to ensure the portal warning messages distinguish between inactive appraisers and unverified appraisers, as of the date the appraisal is performed.	Improved compliance	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should perform supervisory review of both Enterprises to ensure that the portal tests whether appraisers are licensed and active at the time the appraisal is performed.	Improved compliance	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)
	FHFA should perform supervisory review of both Enterprises to change the message type, for messages relating to appraiser license status, from automatic override to manual override or fatal, which will require lenders to take action to address the message prior to delivering the loan. This action can be taken once the system logic is fixed and the historical records are available to determine the status of an appraiser's license at the time the appraisal work is performed, and the states are updating in real-time.	Improved compliance	<i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> ( <a href="#">AUD-2014-008</a> , February 6, 2014)
<b>Collection of Funds from Servicers</b>	<p>FHFA should require Fannie Mae to:</p> <ul style="list-style-type: none"> <li>quantify and aggregate its overpayments to servicers regularly;</li> <li>implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>report its findings and progress to FHFA periodically.</li> </ul>	Improved financial management	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> ( <a href="#">EVL-2013-012</a> , September 18, 2013)
<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	<i>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</i> ( <a href="#">EVL-2017-002</a> , December 21, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Information Technology</b>			
<b>OIG Information Technology Security</b>	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	Improved information security	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program—2014 (<a href="#">AUD-2014-021</a>, September 30, 2014)</i>
	Because information in the report could be abused to circumvent OIG's internal controls, the recommendations have not been released publicly.	Improved information security	<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016 (<a href="#">AUD-2017-002</a>, October 26, 2016)</i>
<b>FHFA Information Technology Security</b>	Because information in the report could be abused to circumvent FHFA's internal controls, the recommendations have not been released publicly.	Improved information security	<i>Kearney &amp; Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program—2014 (<a href="#">AUD-2014-019</a>, September 26, 2014)</i>
<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	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework (<a href="#">EVL-2016-003</a>, March 28, 2016)</i>



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Cyber Risk Oversight	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	<i>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</i> ( <a href="#">EVL-2016-003</a> , March 28, 2016)
	FHFA should direct the Fannie Mae Board to enhance Fannie Mae's existing cyber risk management policies to: a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates; b. Describe information to be reported to the Board and committees; c. Include a cyber risk framework and cyber risk appetite.	Improved risk management	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> ( <a href="#">EVL-2016-006</a> , March 31, 2016)
	FHFA should instruct the Fannie Mae Board to establish and communicate a desired target state of cyber risk management for Fannie Mae that identifies and prioritizes which risks to avoid, accept, mitigate, or transfer through insurance.	Improved risk management	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> ( <a href="#">EVL-2016-006</a> , March 31, 2016)
	FHFA should direct the Fannie Mae Board to oversee management's efforts to leverage industry standards to: a. Protect against and detect existing threats; b. Remain informed on emerging risks; c. Enable timely response and recovery in the event of a breach; and d. Achieve the desired target state of cyber risk management identified in Recommendation 2 within a time period agreed upon by the Board.	Improved risk management	<i>Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</i> ( <a href="#">EVL-2016-006</a> , March 31, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of FHFA Workforce Matters</b>  <b>Compliance with Law and Regulation</b>	<b>Agency Operations</b>		
	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	Improved opportunities and oversight	<i>Women and Minorities in FHFA's Workforce</i> ( <a href="#">EVL-2015-003</a> , January 13, 2015)
	FHFA should cease using FHFA vehicles and employees to provide transportation to Agency employees in a manner that is inconsistent with federal law and regulations.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)
	FHFA should cease using FHFA employees to research or book personal travel for [the subject] or his family in contravention of 5 C.F.R. § 2635.705(b).	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)
	FHFA should revise its Vehicle Use Policy to track the requirements of Section 1344 and implementing regulations.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should maintain detailed usage logs for all leased vehicles.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)
	FHFA should train employees tasked with providing FHFA transportation to [the subject] and other FHFA employees with the statutory and regulatory requirements.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)
	FHFA should adopt appropriate internal controls to ensure that the findings required by Section 1344 are made by the appropriate Agency employee, are documented in writing, and that requisite notices are provided.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should retain all documentation relating to provision of transportation under Section 1344.	Improved compliance with law and regulation	<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> , December 6, 2016)
<b>Closed Unimplemented Recommendations</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	<i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</i> ( <a href="#">AUD-2014-012</a> , 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	<i>FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</i> ( <a href="#">AUD-2014-005</a> , 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	<i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i> ( <a href="#">AUD-2014-009</a> , February 12, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<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	<i>FHFA's Representation and Warranty Framework</i> ( <a href="#">AUD-2014-016</a> , 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	<i>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</i> ( <a href="#">AUD-2014-018</a> , September 26, 2014)
<b>Collection of Funds from Servicers</b>	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	Improved transparency	<i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> ( <a href="#">EVL-2013-012</a> , 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	<i>Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities</i> ( <a href="#">EVL-2015-001</a> , October 6, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Oversight of Enterprise Executive Compensation	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	<i>Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</i> ( <a href="#">COM-2016-002</a> , 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	<i>Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</i> ( <a href="#">COM-2016-002</a> , March 17, 2016)
Oversight of Servicing Alignment Initiative	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.	Improved servicing compliance and minimized losses	<i>FHFA's Oversight of the Servicing Alignment Initiative</i> ( <a href="#">EVL-2014-003</a> , February 12, 2014)



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	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.	Improved servicing compliance and minimized losses	<i>FHFA's Oversight of the Servicing Alignment Initiative</i> ( <a href="#">EVL-2014-003</a> , February 12, 2014)
	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.	Improved servicing compliance and minimized losses	<i>FHFA's Oversight of the Servicing Alignment Initiative</i> ( <a href="#">EVL-2014-003</a> , February 12, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Targeted Examinations Completed	FHFA should revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance.	Improved supervision	<i>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed (AUD-2016-007, September 30, 2016); 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 (AUD-2016-006, September 30, 2016); FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed (AUD-2016-005, September 30, 2016)</i>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Oversight of Enterprise Remediation of Deficiencies	FHFA should review FHFA's existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the OCC, Federal Reserve, 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.	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)
	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.	Improved remediation of deficiencies	<i>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</i> ( <a href="#">EVL-2016-004</a> , March 29, 2016)
Communication of Deficiencies to Enterprise Boards	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.	Improved Board oversight	<i>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</i> ( <a href="#">EVL-2016-009</a> , July 14, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
Assessing Remediation of Deficiencies	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	<i>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</i> ( <a href="#">EVL-2016-007</a> , 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	<i>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</i> ( <a href="#">EVL-2016-007</a> , July 14, 2016)
Identification of Deficiencies and Their Root Causes	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	<i>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</i> ( <a href="#">EVL-2016-008</a> , July 14, 2016)



## Appendix C: 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.	15-34
Section 5(a)(2)- A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	15-34 61-128
Section 5(a)(3)- An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	61-96 102-128
Section 5(a)(4)- A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	35-52 137-164
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.	135
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.	15-34 102 131-132
Section 5(a)(7)- A summary of each particularly significant report.	15-34
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.	4,33-34 131-132
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.	4,33-34 131-132
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.	132
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.	132
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.	102-128
Section 5(a)(11)- A description and explanation of the reasons for any significant revised management decision made during the reporting period.	132



Source/Requirement	Pages
Section 5(a)(12)- Information concerning any significant management decision with which the Inspector General is in disagreement.	132
Section 5(a)(13)- The information described under section [804](b) of the Federal Financial Management Improvement Act of 1996.	132-133
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.	133
Section 5(a)(15)- A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	133
Section 5(a)(16)- A list of any peer reviews of another IG during the reporting period.	133
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 a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	133-134
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.	133-134
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.	135
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.	135
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.	133-135

## 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 that include 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. As this semiannual report explains, OIG also issues management alerts, special reports, status reports, and roll-up reports in furtherance

**Figure 9. Funds to Be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period October 1, 2016, Through March 31, 2017**

Report Issued	Recommendation No.	Date	Potential Monetary Benefits		
			Questioned Costs	Unsupported Costs	Funds Put to Better Use
OIG-2017-002		Dec 15, 2016	\$24,200,000	\$-	\$-
<b>Total</b>			<b>\$24,200,000</b>	<b>\$-</b>	<b>\$-</b>

of its mission. Figure 9 (see above) summarizes the questioned and unsupported costs identified in an OIG report issued during this semiannual period and any recommendations that funds be put to better use.

## Audit and Evaluation 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 audit, inspection, or evaluation reports issued before October 1, 2016, 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 audit, inspection, or evaluation reports issued before October 1, 2016, 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, 2017, there were no significant revised management decisions.

## 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, 2017, there were no significant management decisions 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. This reporting provision did not apply to the Agency or OIG for the reporting period.

In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2016 and 2015 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be a material weakness or significant deficiency. HERA requires GAO to conduct this audit.

## 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 completed peer review of OIG's investigative function was reported on August 25, 2014. During the reporting period, the Pension Benefit Guaranty Corporation Office of Inspector General (PBGC-OIG) completed a peer review of our audit organization and issued a final System Review Report with a rating of pass on February 28, 2017. A pass rating issued from an external peer review is the highest rating that can be issued to an audit organization. (Copies of both peer review reports are on OIG's website; see [www.fhfaig.gov/Reports/PeerReview](http://www.fhfaig.gov/Reports/PeerReview).)

Neither of these peer review reports contains deficiencies or recommendations. In connection with its final System Review Report, PBGC-OIG

issued a Letter of Comment raising two issues and making related recommendations that were not considered to be of sufficient significance to affect the reviewer's opinion that the "system of quality control for the audit organization of FHFA OIG in effect for the 18-month period ended March 31, 2016, has been suitably designed and complied with to provide FHFA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects." OIG agreed with the recommendations and is undertaking actions to implement them.

During this semiannual reporting period, OIG did not conduct any peer reviews of another IG office.

## 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 reporting the following information regarding (1) investigations involving senior government employees or (2) government officials found to have engaged in whistleblower retaliation. We also report in this section any investigation conducted in periods prior to this reporting period if the matter was not previously publicly disclosed and was closed with a report of investigation in this period.

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 conducted by it involving a senior government employee when allegations of misconduct were substantiated. An investigation was conducted into the conduct of a senior government employee. The matter was referred to DOJ on July 9, 2015, and

declined on July 14, 2015. The senior government employee was found to have failed to properly perform assigned duties, and an administrative disciplinary action was taken against the employee. A report of investigation was prepared, and the investigation was closed during this reporting period.

With regard to another senior government employee, OIG conducted an investigation of a complaint alleging improper use of government resources by a senior government employee and his spouse. The matter was referred to DOJ on January 5, 2016, and declined on that date. OIG's investigation did not substantiate the allegation in the complaint regarding use by the senior government employee's spouse. However, OIG found that the senior government employee used a government vehicle multiple times inconsistent with applicable law. Our investigation also found that FHFA officials responsible for providing transportation lacked knowledge about the governing statutory and regulatory requirements. OIG found that the senior government employee used government support staff multiple times to book personal travel. We forwarded the issue to the Agency's Designated Agency Ethics Official, who found that the use of government employees to book personal travel was not required in the performance of official duties or authorized in accordance with law or regulation. OIG issued a report on this matter to our oversight committees and published a Privacy Act compliant report on our website. We made seven recommendations, which the Agency accepted.

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. During a prior reporting period, OIG investigated a senior government employee after complaints alleging that this employee retaliated against a subordinate employee and interfered in the Equal Employment Opportunity process. In the course of its investigation, other allegations of misconduct involving this same employee were raised, which OIG investigated. OIG provided the results of this investigation to the Agency for review and determination. The Agency pursued an administrative disciplinary action against the employee. In a prior reporting period, OIG referred investigative summaries detailing the allegations and our subsequent investigations to the Equal Employment Opportunity Commission and the Office of Special Counsel. During this reporting period, OIG completed a report of this investigation and closed the investigation.

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 a senior government employee that is closed and was not disclosed to the public. OIG initiated an investigation upon receipt of an allegation that a senior government employee was burdened by a conflict of interest with a counterparty of an entity regulated by FHFA. OIG's investigation did not substantiate the allegation. OIG prepared a report of investigation and closed the investigation during this reporting period.

OIG received a referral from the U.S. Office of Government Ethics regarding potential violations of post-employment restrictions by certain former employees of other government agencies, including meeting with a now-former FHFA employee. OIG's investigation did not substantiate

wrongdoing by any current or former FHFA employee. OIG referred the matters outside its jurisdiction to the respective OIGs of other agencies that had previously employed the relevant former government employees. OIG prepared a report of investigation and closed the investigation during this reporting period.

OIG received a complaint alleging that an employee may have lied on the employee's employment applications with FHFA and another government agency, as well as related security forms. OIG investigated the matter and did not substantiate the allegations. OIG prepared a report of investigation and closed the investigation during this reporting period.

## **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, confidential supervisory information, or trade secrets)—the particular circumstances of each inspection, evaluation, and audit conducted by OIG 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 reports during this reporting period, the public disclosure of some or all of the contents would be prohibited by law, e.g., the Privacy Act of 1974, and, accordingly, OIG has not publicly disclosed such contents.

## **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 D: OIG Reports





Below are the 14 audits, evaluations, compliance reports, management alerts, special reports, and risk assessments published during the period. See [www.fhfa.ig.gov](http://www.fhfa.ig.gov) for OIG's reports.

Report	Date
<i>Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2016</i> ( <a href="#">AUD-2017-001</a> )	October 26, 2016
<i>Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016</i> ( <a href="#">AUD-2017-002</a> )	October 26, 2016
<i>FHFA's Use of Inconsistent Criteria Materially Affected its Reporting of Remediation of Serious Deficiencies in its 2015 Performance and Accountability Report</i> ( <a href="#">EVL-2017-001</a> )	November 9, 2016
<i>Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation</i> ( <a href="#">OIG-2017-001</a> )	December 6, 2016
<i>Update on the Status of the Development of the Common Securitization Platform</i> ( <a href="#">COM-2017-001</a> )	December 9, 2016
<i>Fannie Mae Dallas Regional Headquarters Project</i> ( <a href="#">OIG-2017-002</a> )	December 15, 2016
<i>Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises</i> ( <a href="#">OIG-2017-003</a> )	December 15, 2016
<i>FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</i> ( <a href="#">EVL-2017-002</a> )	December 21, 2016
<i>Compliance Review of Federal Home Loan Bank Fraud Reporting to FHFA</i> ( <a href="#">COM-2017-002</a> )	January 24, 2017
<i>Directives from the Audit Committee of the Freddie Mac Board of Directors Caused Management to Improve its Reporting about Remediation of Serious Deficiencies from October 2015 through September 2016</i> ( <a href="#">ESR-2017-003</a> )	March 22, 2017
<i>Update on FHFA's Implementation of its Housing Finance Examiner Commission Program</i> ( <a href="#">COM-2017-003</a> )	March 22, 2017
<i>Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue</i> ( <a href="#">OIG-2017-004</a> )	March 23, 2017
<i>Risk Assessment of FHFA's Fiscal Years 2016 and 2015 Government Purchase Card and Travel Card Programs</i> ( <a href="#">OIG-RA-2017-001</a> )	March 27, 2017
<i>FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions</i> ( <a href="#">EVL-2017-004</a> )	March 28, 2017



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

In these types of schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they've 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.

 DEFENDANT	 ROLE	 MOST RECENT ACTION	 DATE
<b>Multiple Indictments, Guilty Pleas, and Sentencings in Condominium Bank Fraud Scheme, Florida</b>			
Co-conspirators enriched themselves by using straw buyers and unqualified buyers to purchase and finance residential properties. To do this, the co-conspirators submitted loan applications and other documents to lenders containing materially false statements. The Enterprises purchased several loans involved in this fraud scheme. Current loss estimates are in excess of \$1.5 million.			
Herberto Gamboa	Marketing Company Operator	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	March 23, 2017
Michael Gonzalez	Straw Buyer	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	March 22, 2017
Carlos Mesa, Jr.	Straw Buyer	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	March 22, 2017
Jorge Sola	Marketing Company Operator	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	March 6, 2017
Rafael Amador	Director/Vice President/Secretary of Title Company	Sentenced to 12 months and 1 day in prison, 5 years of supervised release, and ordered to pay \$2,146,242 in restitution.	January 19, 2017
Jeffrey Canfield	Straw Buyer	Sentenced to 7 months in prison, 5 years of supervised release, and ordered to pay \$701,575 in restitution, joint and several.	January 19, 2017

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Orlando Ortiz	Straw Buyer	Sentenced to 4 months in prison, 5 years of supervised release, and ordered to pay \$399,652 in restitution.	January 19, 2017
Osvaldo Sanchez	Director/President/ Treasurer of Title Company	Sentenced to 12 months and 1 day in prison, 5 years of supervised release, and ordered to pay \$1,749,014 in restitution.	January 19, 2017
Luis Tur	Straw Buyer	Sentenced to 7 months in prison, 5 years of supervised release, and ordered to pay \$701,575 in restitution, joint and several.	January 19, 2017
Jaime Sola Avila	Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Yipsy Clavelo	Straw Buyer	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Maria Diaz	President of Mortgage Brokerage Business/ Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Emily Echavarria	Real Estate Broker/ Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Miguel Faraldo	Marketing Company Operator/Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Yanet Huet	Straw Buyer	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Jenny Nillo	Marketing Company Operator/Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Jose Salazar	Straw Buyer	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Hector Santana	Director of Sales/ Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Miguel Soto, Jr.	Acting Manager/ Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Eduardo Toledo	Real Estate Sales Associate/Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Cynthia Velasquez	Straw Buyer	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Barbara Zas	Recruiter	Indicted on charges of conspiracy to commit bank and wire fraud and bank fraud.	January 17, 2017
Pedro Allende	Vice President of Title Company	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	November 16, 2016
Mirna Pena	Director/President of Title Company	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	November 16, 2016

### **Sentencing of Former President and Corporation in Builder Bailout Scheme: \$3 Million in Restitution Ordered Paid to the Enterprises, California**

Discovery Sales, Inc. (DSI) was established to sell new homes in the East Bay area of Northern California. Ayman Shahid, the former president, directed and managed all of the day-to-day operations of DSI. Shahid and others conspired to induce buyers to purchase homes at inflated prices by providing undisclosed financial incentives to the buyers to keep the sales prices of the new homes high, thereby protecting the financial interest of the builders.

Ayman Shahid	Former President	Sentenced to 46 months in prison, 3 years of supervised release, and ordered to pay a fine of \$50,000.	March 16, 2017
Discovery Sales, Inc.	Corporation	Pled guilty to bank fraud and sentenced to 5 years of probation and ordered to pay restitution of \$3 million (all to the Enterprises) and a fine of \$8 million.	December 8, 2016

### **Indictment, Sentencings, and Guilty Pleas in \$39 Million Builder Bailout Fraud, Florida**

A scheme allegedly involving numerous mortgage brokers, real estate agents, and settlement agents across southern and central Florida involved the sale of multiple condominium conversion properties. The investigation has documented 165 transactions involving Juan Carlos Sanchez and his co-conspirators and over \$39 million in mortgage loans.

Dagoberto Rodriguez	Real Estate Agent	Indicted for conspiracy to commit bank fraud.	March 16, 2017
Alexander Gonzalez-Perez	Straw Buyer	Sentenced to 12 months and 1 day in prison, 3 years of supervised release, and ordered to pay \$383,788 in restitution, joint and several.	March 6, 2017
Maria del Carmen Rodriguez	Straw Buyer	Sentenced to 21 months in prison and 3 years of supervised release.	February 3, 2017
Ivan Peralta	Real Estate Broker/ President of Real Estate Brokerage Business	Pled guilty to conspiracy to commit bank fraud.	January 31, 2017
Rosario Zanelli Peralta	President of Mortgage Brokerage Business	Pled guilty to conspiracy to commit bank fraud.	January 31, 2017

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### **Trial Conviction of Former CFO of Resort and Indictment of Former JP Morgan Chase Bank Officer in Connection with Multimillion-Dollar Fraud, Florida**

Cay Clubs Resorts, which operated resort-style hotels/condominiums throughout the United States, operated as a massive Ponzi and securities fraud scheme. The scheme allegedly defrauded 1,400 investors, FDIC-insured banks, and the Enterprises out of over \$300 million. The scheme caused a loss to Freddie Mac of \$8,390,663 and to Fannie Mae of \$2,850,086.

David Schwarz	Former Cay Clubs Owner/CFO	Found guilty via jury trial on charges of conspiracy to commit bank fraud, bank fraud, and interference with the administration of Internal Revenue laws.	March 3, 2017
Ross Pickard	Former Senior Loan Officer	Indicted on charges of conspiracy and loan and credit application fraud.	December 6, 2016

### **Three Charged for Bank Fraud and Conspiracy in Condo Scheme, Florida**

Eric Granitur and others allegedly conspired in a scheme to sell condominium units with undisclosed incentives. These incentives were not disclosed in sale and purchase contracts, loan applications, HUD-1 forms, and other documents and caused lenders to fund loans based on materially false information. The fraud scheme caused financial institutions to fund mortgage loans of over \$20 million.

Deborah Dentry Baggett	Accountant	Charged via superseding indictment with conspiracy to commit bank fraud and bank fraud.	February 28, 2017
Eric Granitur	Attorney/Escrow Agent	Charged via superseding indictment with conspiracy to commit bank fraud and bank fraud.	February 28, 2017
George Heaton	Real Estate Developer	Charged via superseding indictment with conspiracy to commit bank fraud and bank fraud.	February 28, 2017

### **Guilty Pleas of Mortgage Broker and Sales Associate in Condo Scheme, Florida**

Co-conspirators facilitated the sale of condominiums to straw buyers at inflated prices, then paid undisclosed incentives and caused false documentation to be submitted to financial institutions in order to qualify buyers for loans they otherwise would not have qualified. A co-conspirator wired the closing proceeds to a shell company that disbursed the undisclosed incentives to the participants of the transaction in an attempt to further conceal the payments from lenders and regulators.

David Cevallos	Mortgage Broker	Pled guilty to conspiracy to commit wire fraud.	February 10, 2017
Osbel Sanchez	Sales Associate	Pled guilty to wire fraud.	January 31, 2017

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Guilty Plea of Title Company Owner, Florida

Patricia Lynn Smith, owner of the now defunct Northwest Florida Title Services, raised funds from a complicit investor to close numerous home purchases by straw buyers using fraudulent loan applications. The investor funds were used primarily to fund the borrowers' cash to close for the loans. Smith also used the investor's money to pay the recruiters of straw buyers, then repaid the investor with proceeds from the fraudulently obtained loans. The investor received a commission for his role and in turn paid Smith a kickback fee for facilitating the transaction.

Patricia Lynn Smith	Title Company Owner	Pled guilty to conspiracy to commit bank fraud and/or mail fraud affecting a financial institution and bank fraud.	January 13, 2017
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### Sentencing in Multimillion-Dollar Bank Fraud Scheme, Florida

Individuals were found to have been involved in an unlawful scheme to market and sell condominiums at a development in the Tampa, Florida, area by offering seller-provided incentive packages that included cash to close, cash rebates, and guaranteed rent, which were not disclosed to the lenders that funded the mortgages. Eventually, the buyers were unable to make mortgage payments, causing many of the condominium units to go into foreclosure and exposing the lenders and the Enterprises to losses of \$18.3 million.

Gary Hughes	Loan Officer	Sentenced to 5 years of supervised release and ordered to pay \$272,300 in restitution, joint and several.	November 21, 2016
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### Two Indicted in Condo Conversion Fraud Scheme, Florida

Co-conspirators allegedly unlawfully marketed and sold condominium units at The Preserves, a condominium conversion project, by offering potential buyers incentives that were not disclosed to lenders and prepared and submitted loan applications containing material misrepresentations.

Carlos Escarria	Real Estate Sales Associate	Indicted on charges of conspiracy to commit bank fraud, bank fraud, and wire fraud affecting a financial institution.	November 17, 2016
Alejandro Tobon	Branch Manager	Indicted on charges of conspiracy to commit bank fraud, bank fraud, and wire fraud affecting a financial institution.	November 17, 2016

### Real Estate Agent Charged in Property Flipping Scheme, Tennessee

Co-conspirators allegedly engaged in a property flipping scheme wherein straw buyers were paid undisclosed incentives to purchase houses. At one time, the Enterprises owned 3 of the 10 properties involved in this scheme.

Thomas Boyd	Real Estate Agent	Charged via superseding indictment with bank fraud, mail fraud, and engaging in monetary transactions in criminally derived property.	November 8, 2016
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Sentencing of Developer, Florida

Clifford Davis, a developer, provided unlawful incentives, such as a “no cash down leaseback agreement” and down payment assistance, to condominium buyers that were not revealed to the lenders who financed the loans.

Clifford Davis	Real Estate Developer	Sentenced to 5 years of probation, a fine of \$15,000, and ordered to pay \$400,000 in forfeiture.	October 28, 2016
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### Guilty Plea in Builder Bailout Scheme, Illinois

The CEO of 13th & State, an LLC created to facilitate the development and sale of units at a high-rise condominium building known as Vision on State, and others pled guilty to an unlawful builder bailout scheme that used inflated sales prices to pay undisclosed incentives to recruiters and straw buyers. The scheme resulted in approximately \$22.8 million in fraudulent mortgages and \$13 million in losses to financial institutions.

Asif Aslam	Recruiter	Pled guilty to bank fraud.	October 14, 2016
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## Appendix F: Of 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.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

### Sentencing in Loan Origination Scheme, Texas

The individual below engaged in wire fraud by laundering the proceeds of a loan origination scheme that provided home buyers with closing costs that were not disclosed to the lenders. The scheme exposed the Enterprises to losses of approximately \$866,000.

Euneisha Hearn	Loan Officer	Sentenced to 46 months in prison, 5 years of supervised release, and ordered to pay \$180,235 in restitution, joint and several.	March 28, 2017
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### 24-Year Prison Sentence in Mortgage Fraud Scheme, Colorado

Family members were found to have used their status in the real estate industry to perpetrate a fraudulent mortgage scheme by manipulating straw buyers to buy and sell properties going into foreclosure. Twelve properties were named in the indictment in relation to \$4.6 million in fraudulently obtained loans.

Jose Ricardo Sarabia-Martinez	Owner of Realty Business	Ordered to pay \$951,571 in restitution, joint and several. Previously sentenced to 288 months in prison and 5 years of parole.	March 21, 2017, and October 28, 2016
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### Three Sentenced in Scheme Involving Fraudulent Loan Applications, California

Co-conspirators working at JTR Real Estate, Inc. were found to have devised a scheme to defraud lenders by using straw buyers to purchase properties from JTR's inventory. Co-conspirators completed or assisted in the completion of the straw borrowers' loan applications containing materially false information regarding the buyers' employment, income, assets, and intent to reside in the properties. As a result of this scheme, lenders approved over \$2.4 million in loans and suffered losses, along with the Enterprises.

Elek Andrade	Licensed Real Estate Salesperson	Sentenced to 12 months and 1 day in prison, 3 years of supervised release, 3,120 hours of community service, and ordered to pay \$2,573,092 in restitution, joint and several.	February 27, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
John Martynec	Licensed Real Estate Broker/Co-Owner	Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$2,573,092 in restitution, joint and several.	February 27, 2017
Mireya Espinoza	Licensed Tax Preparer	Sentenced to 12 months and 1 day in prison, 3 years of supervised release, and ordered to pay \$1,476,966 in restitution, joint and several.	February 13, 2017

### Guilty Trial Verdict and Guilty Pleas in Multimillion-Dollar Origination Fraud Scheme, New York

One co-conspirator was found to have utilized straw buyers and submitted loan applications to lenders containing false information, including inflated purchase prices and fictitious asset and income information about the purchasers, and provided down payment funds to the straw buyers, which was not disclosed to the lenders. Two other co-conspirators pled guilty to specific crimes set forth below. The co-conspirators collectively caused the financial lending institutions to loan over \$5.5 million, of which over \$2.7 million was their profit from the scheme.

James Bayfield	Foreclosure/Straw Buyer Recruiter	Found guilty at trial of conspiracy to commit bank fraud and wire fraud and bank fraud.	January 19, 2017
Michelle Baker	Title Agent	Pled guilty to conspiracy to commit bank fraud and wire fraud.	December 16, 2016
Dirk Ameen Hall	Lead Defendant/Real Estate Buyer/Flipper	Pled guilty to conspiracy to commit bank fraud and wire fraud.	December 2, 2016

### Sentencing in Multi-defendant Origination Scheme, Illinois

The defendant, along with others, participated in a scheme to defraud lenders of mortgage loans, federal student loans, and small business loans. The participants in the scheme used their own identities and the personal information of identity theft victims to commit the fraud, which involved submitting false documents to lenders and using straw buyers to obtain loans. The loss exposure to the Enterprises was nearly \$1 million.

Warren Taylor	Participant	Sentenced to 30 months in prison, 1 year of supervised release, community service not to exceed 100 hours, and ordered to pay \$129,862 in restitution, joint and several.	January 4, 2017
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### Sentencing of Loan Processor in Origination Fraud Scheme, Florida

The defendant and others participated in a mortgage fraud scheme in which they entered into agreements to purchase properties for amounts in excess of the original asking price. The loss exposure to the Enterprises is \$1,192,125.

Mayory Calvo	Loan Processor	Sentenced to 2 years of supervised release and ordered to pay \$139,591 in restitution, joint and several, and \$139,591 in forfeiture.	December 7, 2016
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Sentencing in Loan Origination Fraud Scheme, Maryland

A builder, along with co-defendants, participated in preparing a false HUD-1 form that falsely represented that the borrower provided over \$1 million on the date of closing as “cash to close” when in fact he brought no monies to the closing.

David Steeley	Employee	Sentenced to 2 months in prison, 3 years of supervised release, 3 months of home confinement, and ordered to pay \$435,990 in restitution.	November 29, 2016
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### Guilty Plea in Fraudulent Real Estate Scheme, Texas

The defendant engaged in a series of fraudulent real estate transactions in Texas. There are at least nine mortgages involved in the scheme, two of which were secured by Fannie Mae. Losses to financial institutions and Fannie Mae are in excess of \$1.2 million.

James Mitchell	Buyer	Pled guilty to conspiracy to commit bank fraud.	November 8, 2016
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### Sentencing of Seller in \$3.5 Million Origination Fraud Scheme, Maryland

Multiple defendants conspired to fraudulently secure residential mortgage loans and to obtain federally subsidized rent by causing materially false statements to be made during the loan application and approval process. The defendants used stolen identity and false documents, including W-2 forms, earnings statements, and bank statements for the purpose of inducing lenders to provide mortgage loans. The defendants diverted \$1.3 million from over \$8.2 million in fraudulently obtained loans, which resulted in losses of over \$1.2 million to the Enterprises and \$3.5 million to FHA and conventional lenders.

Mrisho Mzese	Seller	Sentenced in absentia to 54 months in prison, 5 years of supervised release, and ordered to pay \$125,000 in restitution, joint and several.	November 2, 2016
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## Appendix G: 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.

			
DEFENDANT	ROLE	MOST RECENT ACTION	DATE

### Two Charged in Short Sale Fraud Scheme, Michigan

Ariel Trebilcock and David Hill allegedly violated an arm’s length affidavit when Hill short-sold his property to a family member and continued to reside on the property. Freddie Mac, as the investor, suffered losses.

Ariel Trebilcock	Participant	Charged with false pretenses and conspiracy to commit false pretenses.	March 1, 2017
David Hill	Participant	Charged with false pretenses and conspiracy to commit false pretenses.	March 1, 2017

### Prison Sentences and Restitution Ordered in Short Sale and Bank Fraud Schemes, Texas

The defendants and others forged quit claim deeds of distressed properties, re-titling the deeds in the name of a co-conspirator or another person in an effort to cloud the titles. The co-conspirators then filed lawsuits against the lending institutions to stop the pending foreclosure. The co-conspirators then demanded the banks provide them a settlement or authorize short sales for the properties prior to clearing the property titles.

Melvin Layman	Participant	Sentenced to 51 months in prison, 5 years of supervised release, and ordered to pay \$111,744 in restitution, joint and several.	January 11, 2017
Daylon Esaw	Participant	Sentenced to 41 months in prison, 3 years of supervised release, and ordered to pay \$111,744 in restitution, joint and several. Esaw received this sentence for three separate criminal cases; the sentences run concurrently.	November 15, 2016

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Sentencing in Flipping Scheme, Texas

The defendant and co-conspirators colluded to make false statements during grand jury proceedings regarding documents used to fraudulently obtain mortgage loans.

Melvin Layman	Participant	Sentenced to 16 months in prison and 5 years of supervised release.	January 11, 2017
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### Sentencings in Mortgage Fraud Scheme Involving More than 100 Loans, New Jersey

Co-defendants conspired to cause lenders to release liens on encumbered properties via fraudulently arranged short sale transactions. To complete the transactions, they submitted false loan applications and documents and recruited straw buyers. The losses to financial institutions/lenders total approximately \$2 million. Fannie Mae purchased or secured over 100 loans from the mortgage lenders.

Jose Luis Salguero Bedoya	Real Estate Investor	Sentenced to 5 months in prison, 3 years of supervised release, 5 months of home confinement, and ordered to pay \$4,493,463 in restitution, joint and several.	December 21, 2016
Jose Martins	Bank Employee	Sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$1,266,060 in restitution, joint and several.	October 19, 2016

### Two Real Estate Professionals Charged in Short Sale Fraud Scheme, California

Co-conspirators allegedly engaged in a short sale fraud scheme by personally selecting investors to purchase short sale properties and failing to properly market the properties to other potential buyers, in violation of the arm's length affidavit. In some instances, short sellers remained in their homes and rented the properties from the investors or, alternatively, the short sellers repurchased their properties for drastically less than what was owed to the lenders, effectively receiving a principal reduction. The co-conspirators received significant commissions, and the Enterprises, which owned seven of the properties involved in this scheme, sustained more than \$500,000 in losses.

Steve Gonzales	Real Estate Broker	Charged with grand theft by false pretenses and conspiracy to commit grand theft.	December 2, 2016
Angelo Naemi	Real Estate Salesperson	Charged with grand theft by false pretenses and conspiracy to commit grand theft.	December 2, 2016

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Two Real Estate Professionals Sentenced in Short Sale Fraud Scheme, California

Co-defendants and others facilitated short sale transactions of properties to family members, concealing the relationships and violating the terms of the short sale agreement. At least two of the 16 loans associated with this scheme were owned by the Enterprises.

Shaima Hadayat	Real Estate Broker	Pled no contest to grand theft, agreed to surrender her broker license, and was sentenced to 180 days in prison and 3 years of informal probation.	November 1, 2016
Harpreet Singh	Real Estate Agent	Pled no contest to forgery, agreed to surrender his real estate license, and was sentenced to 180 days in prison and 5 years of formal probation.	November 1, 2016



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

These 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.

 DEFENDANT	 ROLE	 MOST RECENT ACTION	 DATE
<b>Guilty Plea in \$30 Million Mortgage Relief Fraud Scheme, California</b>			

The Matsuba family operated a number of companies that claimed to help struggling homeowners burdened with large mortgages. They falsely promised victims they would short sell their homes and relieve them of their mortgage debt. According to the indictment, victim homeowners deeded their properties to entities controlled by the Matsubas, who promised they would continue to make the victims' mortgage payments while they negotiated with lenders to short sell their properties. In reality, the Matsubas failed to make mortgage payments and rented out the properties to third parties, often submitting fraudulent short sale purchase offers to lenders and filing false bankruptcy petitions in an attempt to delay foreclosure and maximize the time they could collect rental payments.

Jane Matsuba-Garcia	Participant	Pled guilty to conspiracy to commit wire fraud, false statements relating to loan applications, identity theft, and subscribing to a false tax return.	March 6, 2017
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### Guilty Plea in Nationwide Loan Modification Scheme with Over 10,000 Victims, Utah

The defendant conspired with others to defraud distressed homeowners and the Enterprises with a loan modification scheme that affected more than 10,000 victims nationwide.

Jeremiah Barrett	Recruiter	Pled guilty to conspiracy.	February 13, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Indictments and Guilty Pleas in Loan Modification and Foreclosure-Delay Scheme, Maryland

Rene de Jesus de Leon and co-conspirators allegedly committed loan modification fraud by convincing struggling homeowners to stop making mortgage payments and communicating with their lenders. Instead, de Leon and his co-conspirators instructed homeowners to make mortgage payments to companies controlled by de Leon, with assurances that de Leon and others would negotiate with the victims' lenders on their behalf to obtain modifications. At least 60 homeowners were defrauded by this scheme, with 20 properties identified as having Enterprise-backed loans.

Carrol Jackson	Owner/Manager of Company	Indicted on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	February 6, 2017
Michelle Jordan	CEO/Director of Company	Indicted on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	February 6, 2017
Michael Welsh	President/Vice President and Director of Company	Indicted on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	February 6, 2017
Pedrina Rodriguez Bonilla (also known as Pedrina Rodriguez)	Participant	Pled guilty to conspiracy to commit mail and wire fraud.	December 21, 2016
Rene de Jesus de Leon	Participant	Pled guilty to conspiracy to commit mail and wire fraud.	November 29, 2016

### Guilty Pleas in Loan Modification Scheme, Virginia

The defendants, along with others, devised a scheme to obtain upfront payments from victims who were trying to obtain loan modifications by leading them to believe they were receiving federally funded home loan modifications under the government's Home Affordable Modification Program. The co-conspirators falsely held themselves out as a nonprofit organization designed to help homeowners at risk of foreclosure. In reality, they did nothing to help modify mortgages and instead used the victims' payments for their own personal benefit and to further the fraud scheme.

Sabrina Rafo	Customer Service Representative	Pled guilty to conspiracy to commit mail and wire fraud.	January 19, 2017
Nicholas Estilow	Closer	Pled guilty to conspiracy to commit mail and wire fraud.	January 18, 2017

### Guilty Plea in Loan Modification Scheme, California

The defendant took part in a loan modification scheme. The scheme included making false promises and guarantees to financially distressed homeowners about their company's ability to negotiate loan modifications at specific rates of interest and certain payment terms from the homeowners' mortgage lenders.

Ruby Encina	Bookkeeper and Managed Clerical Staff	Pled guilty to aiding and assisting in the preparation of a false income tax return.	January 9, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Fictitious Loan Officer Indicted, Maryland

Se Chang Moon allegedly posed as a loan officer and obtained over \$350,000 in funds from one victim who believed Moon was using the money to refinance the victim's mortgage. Moon, however, stole the money and used it for his personal benefit. Moon also allegedly victimized other potential customers by stealing their identities and opening bank accounts and obtaining loans in their names without their knowledge.

Se Chang Moon (also known as Warren Moon)	Fictitious Loan Officer	Indicted on charges of wire fraud, bank fraud, and aggravated identity theft.	December 7, 2016
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### Three Indicted in Multi-state Loan Modification Scheme with Over 550 Victims, Kansas

Tyler Korn and Amjad Daoud operated Reliant Home Financial Group (RHFG), and Ruby Price operated the Arize Group, Incorporated (AGI). Together, they allegedly devised a scheme to defraud homeowners with false promises of protecting them from foreclosure. In some instances, the victims would stop making their monthly mortgage payments to their lenders and instead make payments to RHFG or AGI. The co-conspirators allegedly used the victims' monies for personal gain.

Amjad Daoud	Business Owner	Indicted on charges of conspiracy to commit mail and wire fraud and mail fraud.	November 30, 2016
Tyler Korn	Business Owner	Indicted on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	November 30, 2016
Ruby Price	Business Owner	Indicted on charges of conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	November 30, 2016

### Three Sentenced in Loan Modification Scheme, Connecticut

Using various company names, co-defendants claimed to negotiate with lenders to lower mortgage payments on behalf of victims and made numerous false statements to induce payment of advance fees. Once the fees were paid, however, the victims were unable to contact anyone within the various business entities.

Multiple Defendants	Participants	Ordered to pay \$712,470 in forfeiture, joint and several.	November 14, 2016
Michelle Lefaoeu	Processing Team Leader	Sentenced to 12 months and 1 day in prison, 1 year of supervised release, and ordered to pay \$2,390,496 in restitution, joint and several.	October 31, 2016
Kowit Yuktanon	Closer	Sentenced to 18 months in prison, 1 year of supervised release, and ordered to pay \$2,390,496 in restitution, joint and several.	October 25, 2016
Cuong King	Closer	Sentenced to 18 months in prison, 1 year of supervised release, and ordered to pay \$2,390,496 in restitution, joint and several.	October 24, 2016

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
<b>Director/VP of Nonprofit Indicted in Foreclosure Prevention Fraud Scheme, Texas</b>			
Francisco Javier Gonzalez was a director and the vice president of a nonprofit designed to provide housing counseling to combat poverty. According to the indictment, Gonzalez allegedly defrauded numerous homeowners by promising to help them obtain mortgage assistance to save their homes from foreclosure, but in reality, he made no efforts to obtain mortgage assistance for his victims.			
Francisco Javier Gonzalez	Director/Vice President	Indicted on charges of mail fraud, wire fraud, bank fraud, and aggravated identity theft.	October 19, 2016

## Appendix I: OI Publicly Reportable Investigative Outcomes Involving 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.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

### CEO Pleads Guilty and Notaries Charged in Property Investment Scheme, Michigan

The founder and CEO of a real estate and property management company allegedly conspired with others to purchase and resell REO properties, some of which were owned by Fannie Mae, to foreign investors at inflated prices. On many occasions, these properties were allegedly marketed as tenanted and fully refurbished when in reality they were vacant and in a state of extreme disrepair.

Phillip Hayes	Notary	Charged with notary public – violations involving real property, and notary public – general violations.	March 29, 2017
Sandra Hayes	Notary	Charged with notary public – violations involving real property, and notary public – general violations.	March 29, 2017
Sameer Beydoun	Founder and CEO of Company	Pled guilty to conspiracy to commit wire fraud.	March 21, 2017

### Guilty Plea in False REO Sales Scheme, Illinois

Scott Goldstein cheated would-be investors by, among other fake investment pitches, claiming he could purchase discounted REO properties through a fictitious Enterprise program purportedly named the “Block 10 Program.” To support his claims, Goldstein provided some victims with fake documents that used Freddie Mac’s letterhead, and victims, relying on Goldstein’s lies, “invested” in the venture. Goldstein never made the promised investments but used the victims’ money for his own benefit to buy luxury cars and pay his mortgage, among other things. Goldstein’s scheme caused approximately \$245,000 in losses.

Scott Goldstein	Purported CEO of Company	Pled guilty to wire fraud.	March 15, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Guilty Plea of Former Vice President of Inspection Company, Florida

John Franklin Coleman, III, the former vice president of operations, along with other managers of American Mortgage Field Services, a property inspection company, directed employees to submit thousands of fraudulent inspection reports to Bank of America and other loan servicers that paid the company for services that did not occur. The Enterprises contracted with American Mortgage Field Services to oversee periodic inspections on properties in various stages of the foreclosure process. Losses to the Enterprises and Bank of America are in excess of \$12 million.

John Franklin Coleman, III	Former Vice President of Operations	Pled guilty to making a false bankruptcy declaration.	February 9, 2017
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### Recruiter in REO Property Flipping Scheme Sentenced, Tennessee

This scheme involved investor flipping of REO foreclosure properties by offering financial incentives to the borrowers, which were not disclosed to the lenders. Loan officers facilitated the sales by falsifying loan applications.

Thomas Munn, Jr.	Recruiter	Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$605,801 in restitution and \$605,801 in forfeiture; both ordered joint and several.	November 17, 2016
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## Appendix J: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession and Distressed Property 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.

 DEFENDANT	 ROLE	 MOST RECENT ACTION	 DATE
Jury Trial Convictions and Sentencings in Scheme to Steal Properties from Fannie Mae and Others Using Fraudulent Deeds, Illinois			
Terry Teague	False Deed Producer/ Notary	Sentenced to 3 months of probation and ordered to pay \$86,000 in restitution, joint and several. Previously found guilty of mail and wire fraud at trial.	March 3, 2017
Arnetra Ferguson	False Deed Producer/ Notary	Sentenced to 12 months and 1 day in prison, 2 years of supervised release, and ordered to pay \$86,000 in restitution, joint and several. Previously found guilty of mail and wire fraud at trial.	February 15, 2017
Marcus Lenton	Property Locator/False Deed Producer	Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$86,000 in restitution, joint and several. Previously pled guilty to mail and wire fraud.	February 8, 2017



DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Sentencings in Adverse Possession Scheme Involving Enterprise Properties, Pennsylvania

This unlawful scheme involved theft of properties, including properties owned by the Enterprises, by creating fraudulent deeds purporting to convey ownership of the properties. The co-conspirators occupied several of the properties or attempted to rent or sell them.

Steven Hameed	Participant	Sentenced to 96 months in prison, 5 years of supervised release, and ordered to pay \$190,818 in restitution, joint and several.	February 15, 2017
Damond Palmer	Participant	Sentenced to 1 day in prison, 5 years of supervised release, and ordered to pay \$147,481 in restitution, joint and several.	October 19, 2016
Darnell Young	Participant	Sentenced to 40 months in prison, 5 years of supervised release, and ordered to pay \$190,818 in restitution, joint and several.	October 19, 2016

### Sentencings in Foreclosure Rescue Scheme, California

Co-defendants and others operated a foreclosure rescue scheme involving the filing of false bankruptcies, grant deeds, and other lawsuits. The scheme involved over 80 properties, and the defendants received over \$1 million in payments from victims.

David Boyd	Purported Attorney/Document Preparer	Sentenced to 4 years in prison and ordered to pay \$50,601 in restitution, joint and several.	February 7, 2017
Marcus Robinson	Salesman/Document Preparer	Sentenced to 4 years in prison and ordered to pay \$25,295 in restitution, joint and several.	February 7, 2017
John Contreras	Salesman/Document Preparer	Sentenced to 80 months in prison and ordered to pay \$102,943 in restitution, joint and several.	November 4, 2016

### Sentencing of Real Estate Salesperson, Florida

Rafael Sanchez ran a scheme in which he charged fees to file false bankruptcy petitions on behalf of struggling homeowners in an attempt to delay the foreclosure process.

Rafael Sanchez	Real Estate Agent	Sentenced to 2 years of probation and ordered to pay \$10,050 in restitution.	January 9, 2017
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### Sentencing in Bankruptcy Foreclosure Scheme, California

Matilda Verbera and others conspired to commit bankruptcy fraud by operating a business that falsely purported to provide assistance to struggling homeowners seeking to delay or avoid foreclosure.

Matilde Verbera	Business Owner	Sentenced to 6 months in prison, 6 months of home confinement, and 3 years of supervised release.	January 9, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### **Guilty Verdict and Sentencing of Sovereign Citizens; Falsely Asserted Ownership of Foreclosed Properties Owned by Fannie Mae or Other Lenders, Illinois**

The defendants, along with others, commandeered vacant or recently foreclosed homes owned by Fannie Mae or other lenders, which they either moved into or rented to family members. The four belonged to the “Moors,” a group that claims not to recognize most state or federal laws. In some cases, the renters were unaware of the scheme.

Raymond Trimble	Sovereign Citizen	Pled guilty to theft and sentenced to 48 months in prison and 2 years of supervised release.	December 21, 2016
Torrez Moore	Sovereign Citizen	Found guilty at trial to charges of theft, financial institution fraud, and continuing a financial crimes enterprise.	October 21, 2016

### **Sentencing of Business Operator in Bankruptcy Foreclosure Scheme, California**

Karl Robinson operated “Stay in Your Home Today,” a business marketed to struggling homeowners as a way to delay the foreclosure of their homes. To accomplish this, Robinson arranged for the filing of fraudulent bankruptcy petitions, as well as fraudulent deeds of trust, for which he received approximately \$2.98 million in fees from the victims of his scheme.

Karl Robinson	Pastor/Business Owner	Sentenced to 48 months in prison, 3 years of supervised release, and ordered to pay a fine of \$10,000.	November 28, 2016
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### **Prison Sentences and Restitution Ordered in Scheme to Steal Properties from the Enterprises and Others, California**

Co-defendants operated a scheme to steal properties by filing forged grant deeds and then selling the stolen properties to unwitting investors. At least 10 of the properties stolen were owned by the Enterprises, valued at over \$2.5 million.

Mazen Alzoubi	Real Estate Investor	Sentenced to 75 months in prison, 3 years of supervised release, and ordered to pay \$2,506,414 in restitution, joint and several, and \$2,192,931 in forfeiture.	November 7, 2016
Daniel Deaibes	Interacted with Escrow Companies During Sales of Stolen Properties	Sentenced to 24 months in prison, 3 years of supervised release, and ordered to pay \$1,819,591 in restitution, joint and several.	October 24, 2016





## Appendix K: OI Publicly Reportable Criminal Investigative Outcomes Involving RMBS Schemes

In this type of scheme, traders fraudulently manipulate the buying and selling prices of RMBS, causing customers to pay more to purchase the RMBS and to receive less when they sell RMBS.

 DEFENDANT	 ROLE	 MOST RECENT ACTION	 DATE
<b>Indictment of Former Cantor Fitzgerald &amp; Co. RMBS Trader, Connecticut</b>			
Former Cantor Fitzgerald & Co. RMBS trader David Demos allegedly engaged in a scheme to defraud designed to enrich his former employer and himself by using materially false and fraudulent misrepresentations and omissions to take secret and unearned compensation from victims on RMBS trades.			
David Demos	Former RMBS Trader	Indicted on charges of securities fraud.	December 7, 2016

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

Investigations in this category 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.

 DEFENDANT	 ROLE	 MOST RECENT ACTION	 DATE
<b>Multifamily Property Accountant Indicted, Arizona</b>			
Shana Johnson allegedly embezzled over \$2.4 million from bank accounts associated with the multifamily properties under management by her employer, including multifamily properties financed by Freddie Mac.			
Shana Johnson	Property Accountant	Indicted on charges of wire fraud, money laundering, and aggravated identity theft.	February 1, 2017

## Appendix M: 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.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

### Guilty Plea of Title Agency Company Owner, Ohio

Kimberli E. Himmel was the owner and operator of Netwide Title Agency, Inc. Himmel deceived lenders by directing them to wire loan funds to her personal bank account instead of the company's official escrow account and then used the funds for her own personal use and business operating expenses. Freddie Mac suffered losses as a result of this scheme.

Kimberli E. Himmel	Title Agency Owner	Pled guilty to bank fraud and theft of government funds.	March 31, 2017
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### Guilty Plea of Nonprofit Employee Who Defrauded FHLBank Member, Texas

The executive director of a nonprofit organization and a co-conspirator submitted fraudulent documentation to the FHLBank of Dallas to obtain Affordable Housing Program funds.

Kayla Lindsey	Chief Financial Officer	Pled guilty to conspiracy.	March 30, 2017
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### Superseding Indictment of Subject who Forged Fannie Mae Exec's Signature in Deed Fraud Scheme, Texas

Arnoldo Antonio Ortiz allegedly forged signatures on warranty deeds, including that of a Fannie Mae executive, and filed the deeds with the county to obtain distressed or foreclosed properties. Ortiz then allegedly attempted to rent or sell the fraudulently obtained properties to unwitting victims. Ortiz allegedly deeded two Fannie Mae properties to himself, which caused an exposure of over \$500,410 to Fannie Mae.

Arnoldo Antonio Ortiz	Participant	Superseding indictment filed charging theft of property.	March 28, 2017
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Former Bank Employees Indicted and Pled Guilty in Bank Fraud Scheme; Fraudulent Mortgage Applications Totaled at Least \$19.4 Million, Washington

PC Bank Home Loans (PCBHL) offered mortgage loans to borrowers and assisted borrowers with their loan applications. The mortgages originated by PCBHL were funded by its parent, Pierce Commercial Bank (PCBank), which then sold the mortgages to financial institution investors. Co-conspirators working for PCBHL allegedly participated in a scheme to defraud PCBank and its investors by facilitating the submission of fraudulent loan applications to PCBank. Many of the loans went into default, which resulted in large losses and contributed to the eventual failure of PCBank, a member bank of the FHLBank of Seattle. At the time of its failure, PCBank had more than \$17 million in outstanding advances with the FHLBank of Seattle. The Enterprises, as owners of some loans involved in this scheme, suffered additional losses.

Ed Rounds	Former Loan Officer	Pled guilty to bank fraud.	March 23, 2017
Sam Tuttle	Former Vice President/Loan Officer	Pled guilty to bank fraud.	March 14, 2017
Angela Crozier	Former Senior Loan Processor	Indicted on charges of conspiracy to make false statements on loan applications and to commit bank fraud and bank fraud.	January 26, 2017
Benjamin Leske	Former Loan Officer	Indicted on charges of conspiracy to make false statements on loan applications and to commit bank fraud and bank fraud.	January 26, 2017
Craig Meyer	Former Vice President/Loan Officer	Pled guilty to making false statements in a loan application.	January 19, 2017

### Indictment Filed for Failed Member Bank, FHLBank of San Francisco, California

Co-conspirators allegedly engaged in a scheme to defraud federal regulators and Sonoma Valley Bank, a member bank of the FHLBank of San Francisco, by using straw buyers to assist a bank customer in obtaining approximately \$28 million in loans, exceeding the FHLBank's lending limits, thereby exposing it to excessive risk and eventually causing it to fail. Sonoma Valley Bank had approximately \$60 million in outstanding advances from the FHLBank of San Francisco; losses attributable to this scheme are approximately \$20 million.

Sean Cutting	Former CEO	Indictment filed on charges of conspiracy to commit bank fraud and falsify bank records, bank fraud, false bank entries, conspiracy to make false statements to the FDIC, misapplication of bank funds, and false statements to the FDIC.	March 23, 2017
David Lonich	Attorney	Indictment filed on charges of conspiracy to commit bank fraud and falsify bank records and bank fraud.	March 23, 2017

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Brian Melland	Former Chief Loan Officer	Indictment filed on charges of conspiracy to commit bank fraud and falsify bank records, bank fraud, false bank entries, conspiracy to make false statements to the FDIC, misapplication of bank funds, false statements to the FDIC, and receipt of gifts for procuring loans.	March 23, 2017

### Guilty Plea of Settlement Agent, Maryland

Margie Franz, a title company employee, defrauded her employer, financial institutions, and homeowners by misapplying escrow fees received for real estate transactions. Losses associated with this scheme are in excess of \$749,000.

Margie Franz	Settlement Agent/ Office Manager	Pled guilty to wire fraud.	March 7, 2017
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### Trial Conviction in Identity Theft Scheme, Virginia

Allise Jones conspired with others to use PII associated with current and former employees of Freddie Mac and the Department of Veterans Affairs. The Freddie Mac PII was obtained from a computer located at Freddie Mac's headquarters. The PII was used to defraud numerous financial institutions by withdrawing funds from the victims' accounts at financial institutions and opening credit accounts using the stolen identities. There are over 2,600 potential victims in this scheme.

Allise Jones (also known as Ajani Ringgold)	Participant	Convicted by jury trial on charges of conspiracy to commit identity theft, conspiracy to commit access device fraud, access device fraud, and aggravated identity theft.	February 16, 2017
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### Superseding Indictment Charging Bank Owner and Real Estate Investor with Bank Fraud, Missouri

Shaun R. Hayes, prior owner of Excel Bank, along with Michael H. Litz, prior owner of Bellington Realty and 18 Investments, allegedly engaged in a scheme in which straw borrowers were used to disguise insider loans totaling over \$3 million. The loans were allegedly used to pay delinquent pool loans of two entities in which Hayes and Litz had ownership. This activity was concealed from Excel Bank and the FDIC.

Shaun R. Hayes	Bank Owner	Superseding indictment filed on charges of bank fraud; theft, embezzlement, or misapplication of funds by a bank officer; and conspiracy to commit bank fraud.	January 31, 2017
Michael H. Litz	Real Estate Investor	Superseding indictment filed on charges of bank fraud; theft, embezzlement, or misapplication of funds by a bank officer; and conspiracy to commit bank fraud.	January 31, 2017



DEFENDANT	ROLE	MOST RECENT ACTION	DATE
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### Sentencing in U.S. Senator Impersonation Case, Florida

Sidney Hines was contacted by a debt collection agency when he failed to make payments on the unsecured loan he received through Fannie Mae's HomeSaver Advance program. Hines impersonated a sitting United States Senator on multiple occasions in telephone calls to the debt collection agency when he, acting as the Senator, stated that Hines' loan was paid in full and that the loan should be removed from his credit report.

Sidney Hines	Homeowner	Sentenced to 2 years of probation.	January 12, 2017
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### Business Owner Indicted in Bankruptcy Estate Embezzlement Scheme, Florida

Clark D. East obtained a loan from Sterns Bank, a member bank of the FHLBank of Minneapolis, to develop a property in Florida. East personally guaranteed the over \$4 million held by Sterns Bank for the development of the property. East subsequently defaulted on the loan and filed for bankruptcy protection with the United States Bankruptcy Court. During the bankruptcy proceedings, East was ordered by the Court to sell the property and pay \$1.2 million in sales proceeds to Sterns Bank. Rather than repaying Sterns Bank, East allegedly embezzled over \$800,000 of proceeds that were part of the bankruptcy estate and due to Sterns Bank.

Clark D. East	Business Owner	Indicted for bankruptcy fraud – embezzlement of a bankruptcy estate.	November 17, 2016
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### Guilty Plea in FHLBank Fraud Scheme, South Carolina

The owner and an employee of a nonprofit conspired to defraud the Affordable Housing Program through the FHLBank of Atlanta and its member banks by submitting fraudulent invoices to banks with forged contractor signatures, inflated costs, and for work never performed.

Augustina Cabral-Rice	Nonprofit Employee	Pled guilty to conspiracy.	November 16, 2016
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### Sentencing of Loan Officer, Missouri

Brian Joe Cox, the president and a loan officer at Focus Bank, an FHLBank member, misapplied approximately \$170,000 in loan proceeds from Focus Bank with the intent to defraud the bank. Cox had been entrusted with funds from multiple borrowers but converted the funds to his personal use and concealed his acts from his employer.

Brian Joe Cox	President/Loan Officer	Sentenced to 51 months in prison, 5 years of supervised release, and ordered to pay \$443,948 in restitution.	November 10, 2016
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### Former Title Company President Charged, New Jersey

Mark Andreotti allegedly conspired with others to fraudulently obtain mortgage loans and use the loan proceeds for personal gain. This scheme resulted in at least \$1.2 million in losses to financial institutions and Fannie Mae.

Mark Andreotti	Former Title Company President	Charged via superseding indictment for conspiracy to commit bank fraud; bank fraud; attempt to evade or defeat tax; and willful failure to file return, supply information, or pay tax.	October 4, 2016
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DEFENDANT	ROLE	MOST RECENT ACTION	DATE
<b>Sentencing of Bank Officer Charged with Theft and Embezzlement, Florida</b>			
Michael Johnson, a former special assets officer at Synovus Bank and senior vice president of special assets at American Momentum Bank, devised a scheme to defraud the banks during REO closing transactions. Both institutions are member banks of the FHLBank system.			
Michael Johnson	Bank Officer	Sentenced to 18 months in prison, 5 years of supervised release, and ordered to pay \$152,783 in restitution and \$152,783 in forfeiture.	October 4, 2016

## Appendix N: Endnotes

- <sup>1</sup> 12 U.S.C. § 4617(b)(2)(A), (B), (D) (2011). Accessed: April 18, 2017, at [www.gpo.gov/fdsys/pkg/USCODE-2011-title12/pdf/USCODE-2011-title12-chap46-subchapII-sec4617.pdf](http://www.gpo.gov/fdsys/pkg/USCODE-2011-title12/pdf/USCODE-2011-title12-chap46-subchapII-sec4617.pdf).
- <sup>2</sup> Department of the Treasury, *Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers* (September 7, 2008). Accessed: April 18, 2017, at [www.treasury.gov/press-center/press-releases/Pages/hp1129.aspx](http://www.treasury.gov/press-center/press-releases/Pages/hp1129.aspx).
- <sup>3</sup> For a detailed discussion of the uncertainty of the Enterprises' future profitability, see Federal Housing Finance Agency Office of Inspector General, *The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured* (WPR-2015-001, March 18, 2015). Accessed: April 18, 2017, at [www.fhfaoig.gov/Content/Files/WPR-2015-001.pdf](http://www.fhfaoig.gov/Content/Files/WPR-2015-001.pdf).
- <sup>4</sup> Federal Housing Finance Agency, Advisory Bulletin 2012-01, *Categories for Examination Findings*, at 2 (April 2, 2012). Accessed: April 18, 2017, at [www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/2012\\_AB\\_2012-01\\_Categories\\_for\\_Examination\\_Findings\\_508.pdf](http://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/2012_AB_2012-01_Categories_for_Examination_Findings_508.pdf). On March 13, 2017, the Agency issued Advisory Bulletin 2017-01, *Classifications of Adverse Examination Findings*, which supersedes and rescinds Advisory Bulletin 2012-01. Accessed: April 18, 2017, at [www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/AB-2017-01-Classifications-of-Adverse-Examination-Findings.pdf](http://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/AB-2017-01-Classifications-of-Adverse-Examination-Findings.pdf).
- <sup>5</sup> Federal Housing Finance Agency, Advisory Bulletin 2016-05, *Internal Audit Governance and Function*, at 15 (October 7, 2016). Accessed: April 18, 2017, at [www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/Final\\_AB\\_Internal\\_Audit\\_2016-05.pdf](http://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/Final_AB_Internal_Audit_2016-05.pdf).
- <sup>6</sup> On May 31, 2015, the FHLBanks of Seattle and Des Moines merged to form a single entity, the FHLBank of Des Moines. See Federal Housing Finance Agency Office of Inspector General, *Merger of the Federal Home Loan Banks of Des Moines and Seattle: FHFA's Role and Approach for Overseeing the Continuing FHLBank* (WPR-2016-002, March 16, 2016). Accessed: April 18, 2017, at [www.fhfaoig.gov/Content/Files/WPR-2016-002.pdf](http://www.fhfaoig.gov/Content/Files/WPR-2016-002.pdf).
- <sup>7</sup> Suspended Counterparty Program, 80 Fed. Reg. 79,675 (final rule December 23, 2015) (to be codified at 12 C.F.R. pt. 1227). Accessed: April 18, 2017, at [www.gpo.gov/fdsys/pkg/FR-2015-12-23/pdf/2015-32183.pdf](http://www.gpo.gov/fdsys/pkg/FR-2015-12-23/pdf/2015-32183.pdf).





# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2016, through March 31, 2017

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