



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2021, through September 30, 2021



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Message from the Acting Inspector General

As Acting Inspector General, I am pleased to present this Semiannual Report to Congress, which covers significant achievements of the Federal Housing Finance Agency (FHFA), Office of Inspector General (OIG) for the six-month period from April 1, 2021, to September 30, 2021.

It has been both an honor and a humbling experience to assume the responsibility of leading FHFA-OIG as of July 31, 2021. Many of the accomplishments described in this report were planned and initiated by Laura Wertheimer, who served from October 2014 through July 2021 as FHFA Inspector General. As OIG continues to transition to the future, I am deeply grateful to all of the talented and dedicated people who carry out OIG's important work every day. With their help, and building on the work of each and every IG and Acting IG since FHFA's inception, the future for OIG looks bright.



Phyllis K. Fong
Acting Inspector General

During this period, OIG has worked with Congress, federal agencies, and other stakeholders to execute its mission of promoting the economy, efficiency, and effectiveness of the nation's housing finance system, while protecting FHFA and the entities it regulates against fraud, waste, and abuse. Our oversight of Agency programs and activities contributes to the liquidity and stability of the nation's housing finance system and protects the interests of the American taxpayers.

Due to the ongoing coronavirus disease 2019 (COVID) pandemic, we followed Office of Personnel Management guidance and operated in a maximum telework status this period. While performing our work remotely, OIG's dedicated professional staff continued to effectively exercise independent oversight of the programs and operations of FHFA and ensured that COVID-related mortgage fraud was successfully investigated and prosecuted.

We published 20 reports, including audits, management advisories, compliance reviews, an administrative inquiry, a risk assessment, and white papers, which are available on our [website](#), and on [Oversight.gov](#), a publicly accessible, searchable website containing the latest public reports from federal Inspectors General. These reports illustrate the broad scope of our oversight responsibilities.

For example, we published a Management Advisory detailing the conflicting guidance that FHFA's Division of Enterprise Regulation (DER) has issued for examinations of Fannie Mae and Freddie Mac. We determined that DER did not meet its previous commitment to establish and communicate clear expectations for use of the Enterprise Examination Manual. In a related audit, we found that DER examiners did not always consider or use the Enterprise Examination Manual when performing targeted examinations during our review period. We also found that DER management did not communicate its expectation that for targeted examinations, examiners use the Manual or document why it was not used. Accordingly, we made three recommendations in order to foster consistent examination practice.

We continued to protect the interests of the American taxpayer through our robust law enforcement efforts and those of our partner law enforcement agencies with which we work collaboratively. For example, in a COVID-related matter, we participated in a multi-agency investigation in the Southern District of Texas, where the defendant pleaded guilty to wire fraud and money laundering for his role in fraudulently obtaining more than \$1.6 million in Paycheck Protection Program (PPP) loans under the Coronavirus Aid, Relief and Economic Security Act.

Another case of note involved Patrick Soria, who was sentenced to 152 months in prison and three years supervised release for orchestrating a real estate fraud scheme that victimized more than 2,000 homeowners, involved fraudulent filings that affected the title to properties across the country, and caused more than \$7 million in losses. These, and other successful law enforcement efforts are described further in this report.

As in prior reporting periods, we have focused our audit and evaluation resources on the Agency programs and operations that pose the greatest financial, governance, and/or reputational risk to FHFA, the Enterprises, and the Federal Home Loan Banks. We have identified the four most significant risks and one area of management concern in two annual publications: our [Management and Performance Challenges Memorandum](#) and our [Audit, Evaluation, and Compliance Plan](#). During this reporting period, we issued reports addressing each of these risks.

Where our fact-finding identifies shortcomings, deficiencies, or processes that could be upgraded, our reports include actionable recommendations to assist FHFA in improving the effectiveness and efficiency of its operations. For this semiannual period, we issued 24 new recommendations, reopened 1, and reaffirmed 2. In the Recommendations section of this report, we list all significant, open recommendations as well as closed, rejected recommendations. We regularly update this information as new recommendations are issued or recommendations are closed, and we publish a compilation monthly in a [Compendium of Open Recommendations](#) on our website.

We appreciate the support and interest in OIG's work demonstrated by FHFA Acting Director Sandra Thompson, and we look forward to continuing our productive working relationships with the Agency, Congress, and our partner law enforcement agencies. The accomplishments described in this Semiannual Report evidence OIG's commitment to our mission and ensuring the efficiency and effectiveness of FHFA programs.

Phyllis K. Fong
Acting Inspector General
September 30, 2021

Snapshot of OIG Accomplishments

**Semiannual Reporting Period
April 1, 2021–September 30, 2021**

Reports Issued Includes audits, compliance reviews, management advisories, an investigative summary, a risk assessment, and white papers	20
Recommendations Made, Reopened, or Reaffirmed	27
Investigative Activities:	
Indictments / Charges	51
Arrests	40
Convictions / Pleas	39
Sentencings	37
Suspension / Debarment Referrals to Other Agencies	26
Suspended Counterparty Referrals to FHFA	6
Investigative Monetary Results:	
Criminal Restitution	\$15,407,878
Criminal Fines / Special Assessments / Forfeitures	\$53,058,298
Investigations Total Monetary Results*	\$68,466,176*

* Includes court-ordered results from individual FHFA-OIG investigations and joint investigations with other law enforcement organizations.

OIG Accomplishments

**For the Annual Period
October 1, 2020–September 30, 2021**

Reports Issued Includes audits, evaluations, compliance reviews, management advisories, a special report, an investigative summary, a risk assessment, and white papers	39
Recommendations Made, Reopened, or Reaffirmed	48
Investigative Activities:	
Indictments / Charges	127
Arrests	85
Convictions / Pleas	74
Sentencings	67
Suspension / Debarment Referrals to Other Agencies	54
Suspended Counterparty Referrals to FHFA	16
Investigative Monetary Results:	
Criminal Restitution	\$28,277,392
Criminal Fines / Special Assessments / Forfeitures	\$57,740,310
Civil Settlement	\$100,000
Investigations Total Monetary Results*	\$86,117,702*

* Includes court-ordered results from individual FHFA-OIG investigations and joint investigations with other law enforcement organizations.

OIG's Oversight

Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). HERA charged FHFA to serve as regulator and supervisor of Fannie Mae and Freddie Mac (the Enterprises) and of the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. HERA also enhanced FHFA's resolution authority to act as conservator or receiver, and FHFA has served as conservator of the Enterprises since 2008. Initially, the conservatorships were intended to be a temporary measure during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their fourteenth year, FHFA's conservatorships of the Enterprises have continued, requiring a nuanced oversight approach by OIG.

OIG's Risk-Based Oversight Strategy

FHFA's dual roles as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises continue to present unique challenges. Consequently, OIG structures its oversight program to examine FHFA's exercise of its dual responsibilities, which differ significantly from the typical federal financial regulator. Given the size and complexity of the regulated entities and the unique, dual responsibilities of FHFA, making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

To assist in making those choices, our Office of Risk Analysis (ORA) enhances our ability to focus our resources on the areas of greatest risk to FHFA and its regulated entities. ORA is tasked with monitoring, analyzing, and disseminating information on emerging and ongoing risks. Through its work, it contributes data and information to assist offices across OIG, and issues white papers discussing areas of potential emerging and ongoing risks.

Management and Performance Challenges

An integral part of OIG's oversight is to identify and assess FHFA's top management and performance challenges and align our work with these challenges. On an annual basis, we assess and report to the FHFA Director FHFA's most serious management and performance challenges which, if not addressed, could adversely affect FHFA's accomplishment of its mission. Our memorandum identifying FHFA's management and performance challenges and one management concern for Fiscal Year (FY) 2021 is available on our [website](#). An overview of the oversight activities during FY 2021 is discussed in our annual [Audit, Evaluation and Compliance Plan](#).

The four management and performance challenges and the management concern for FY 2021 are:

- **Conservatorship Operations:** Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters
- **Supervision of the Regulated Entities:** Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the FHLBanks
- **Information Technology Security:** Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA
- **Counterparties and Third Parties:** Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties
- **Management Concern:** Sustain and Strengthen Internal Controls Over Agency Operations

OIG focuses much of its oversight activities on identifying vulnerabilities in these areas and recommending positive, meaningful actions that the Agency could take to mitigate these risks and remediate identified deficiencies.

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

OIG fulfills its oversight mission through four operational offices. In this section, OIG discusses its oversight activities in three of its operational offices: the Office of Audits, the Office of Evaluations, and the Office of Compliance and Special Projects. During this reporting period, OIG published 16 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges and the one management concern identified above.

Our investigative work is discussed further below in the Investigative Activity Section.

Office of Audits

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

auditing standards or GAGAS. OA also oversees independent public accounting firms that perform certain audits of FHFA's programs and operations.

Office of Evaluations

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

Office of Compliance and Special Projects

The Office of Compliance and Special Projects (OCom) strengthens OIG's capacity to determine whether FHFA has fully implemented our recommendations and addressed deficiencies identified during an audit, evaluation, or other report. OCom has several responsibilities. It maintains a database in which it tracks the status of all recommendations issued by OIG in its reports. It tracks the status of each recommendation and consults with the division that issued the recommendation, prior to closure, to ensure we are applying a single standard across OIG for closing recommendations. It conducts validation testing on a sample of closed recommendations to hold FHFA accountable for the corrective actions it has represented it has implemented. We publish the results of that validation testing to enable our stakeholders to assess the efficacy of FHFA's implementation of actions to correct the underlying shortcoming. OCom also undertakes special projects, which may include reviews and administrative inquiries relating to hotline complaints alleging non-criminal misconduct. OCom performs its compliance reviews and special projects in accordance with the standards CIGIE established for inspections and evaluations.

Reports and Recommendations

Significant Reports

The following nine reports highlight some of the most significant problems and deficiencies in the administration of FHFA's programs and operations addressed by OIG during the six-month reporting period from April 1, 2021, through September 30, 2021, and the recommendations made to address them.

Management Advisory: FHFA Must Resolve the Conflicts in its Guidance for Examinations of the Enterprises to Meet its Commitment to Develop and Maintain a World Class Supervision Program
(OIG-2021-003, September 1, 2021)

In prior reports, we found that FHFA’s guidance for examination of the Enterprises was far more flexible and less prescriptive than the guidance of other federal financial regulators. As a result of that substantial flexibility, we reported that examiners in the Agency’s Division of Enterprise Regulation (DER) have significant discretion in conducting examinations, which has resulted in inconsistent examination practices. In a 2019 evaluation ([EVL-2019-003](#), September 10, 2019), we found that FHFA had not finalized many of its supplemental examination modules for examinations of the Enterprises and that many of them remained in “field test” status for more than five years. We recommended, and FHFA agreed, that FHFA establish and communicate clear expectations for use of revised and new examination modules by DER examiners. DER’s failure to implement this recommendation was the basis for this management advisory.

According to DER, its 2020 Operating Procedures Bulletin (OPB) on targeted examinations implemented our 2019 recommendation and was intended to foster greater consistency in the application of examination standards across the examination teams. However, that OPB vested significant discretion in DER examiners to structure their examination procedures and failed to establish clearer expectations for examiners than the guidance in place at the time we made our recommendation. DER adopted an Enterprise-specific Examination Manual that contained more prescriptive guidance in its Examination Work Programs than the corresponding language in the OPB, but it considers the less specific language in the OPB to control. Furthermore, DER had no current plan to reconcile the 2020 OPB with the more prescriptive language in the Work Programs. Because DER did not adequately implement our 2019 recommendation, we closed that recommendation as rejected and made two new recommendations to further DER’s goal of consistent practice among examiners. FHFA agreed with our recommendations that it:

1. Revise the December 2020 Operating Procedures Bulletin to establish specific guidance with respect to the circumstances under which DER expects examiners to follow examination procedures in the Work Programs; and
2. Align the guidance in the governing Operating Procedures Bulletin with the guidance in the Work Programs in order to foster consistent examination practice.

FHFA’s Use of its Enterprise Examination Manual, in Practice, Does Not Align with its Goal of Promoting a Consistent Examination Approach or Meet Management’s Expectations
(AUD-2021-013, September 28, 2021)

As discussed in the above Management Advisory (OIG-2021-003), we determined that DER did not meet its commitment to establish clearer expectations for use of the Enterprise Examination Manual. Among other things, we noted a discrepancy between the DER Senior Associate Director’s

expectation – that examiners should start with the Enterprise Examination Manual as a base for performing targeted examinations, and if the examination procedures apply, follow those or document the reason(s) for not using them – and DER’s OPB, Targeted Examinations, which only requires examiners to “consider” those procedures, not follow them. We performed this audit to determine whether DER used its 2020 Enterprise Examination Manual in performing targeted examinations of the Enterprises and Common Securitization Solutions, LLC (CSS) initiated and completed from May 1, 2020, to March 31, 2021. We found that DER examiners did not always consider or use the manual when performing targeted examinations during our review period. Further, we found that the DER Senior Associate Director’s expectation – that examiners follow the examination procedures in the Enterprise Examination Manual or document the reason(s) for not using them – was not communicated to examination staff through DER’s OPBs or training materials on the Enterprise Examination Manual. In our audit report, we reaffirmed the two recommendations made in the above Management Advisory. Further, we recommended, and FHFA agreed, that FHFA:

1. Develop and implement procedures that require: (a) examiners to document their reasons for not using the Enterprise Examination Manual to develop procedures documents for targeted examinations, and (b) management to analyze the documented reasons for not using the Enterprise Examination Manual to make improvements as needed (e.g., improvements to the manual, improvements to training to reinforce management’s expectations, etc.).

We also reported, as a matter for consideration, that FHFA could expand its use of managerial cost accounting to support various initiatives.

[FHFA Did Not Record, Track, or Report All Security Incidents to US-CERT; 38% of Sampled FHFA Users Did Not Report a Suspicious Phone Call Made to Test User Awareness of its Rules of Behavior](#) (AUD-2021-009, June 25, 2021)

The Federal Information Security Modernization Act of 2014 defines “incident” as “an occurrence that (1) actually or imminently jeopardizes, without lawful authority, the integrity, confidentiality, or availability of information or an information system; or (2) constitutes a violation or imminent threat of violation of law, security policies, security procedures, or acceptable use policies.” We conducted this audit to assess FHFA’s incident detection and response controls during FYs 2019 and 2020 against standards and guidelines established by FHFA and the federal government. While FHFA established and maintained an Incident Response Plan and used its Security Information and Event Management tool, we found that it did not record, track, or report all security incidents to the United States Computer Emergency Readiness Team (US-CERT) or contemporaneously document the results of a table-top exercise of those controls. In addition, 38% of sampled FHFA users did not report a suspicious phone call we made to test user compliance with a reporting requirement in FHFA’s Rules of Behavior. To address the identified shortcomings, we recommended that FHFA:

1. Develop and implement written procedures that define: (a) the pertinent information that needs to be recorded, tracked, and reported for all security incidents and (b) the controls to ensure the accuracy and completeness of the security incident records;
2. Ensure that minutes documenting future incident response tabletop exercises are prepared timely; and
3. Continue to emphasize to employees and contractors the need to report suspicious activities, including phone calls, to the Help Desk in accordance with FHFA's Rules of Behavior.

FHFA disagreed with recommendation 1 in its management response to our report although FHFA officials later acknowledged orally that existing procedures are inadequate. While we consider that recommendation closed as rejected, we encouraged in our report that FHFA enhance its Incidence Response Plan consistent with the recommendation. FHFA agreed with recommendations 2 and 3, and both were closed as completed during this reporting period.

[FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines](#) (OIG-2021-004, September 20, 2021)

HERA required FHFA to establish prudential standards that address 10 specific areas relating to the management and operations of the regulated entities under FHFA's authority. Pursuant to Section 1108 of HERA, FHFA issued its prudential management and operations standards (PMOS) in June 2012. The PMOS set FHFA's minimum standards for the risk management practices of the Enterprises, as well as the FHLBanks. According to FHFA's regulation (12 C.F.R. § 1236.3(d)), an Enterprise's failure to meet any PMOS may constitute an unsafe and unsound practice. The FHFA Director has a statutory duty under the Safety and Soundness Act to ensure that each regulated entity complies with the PMOS.

DER asserts that its examinations are conducted against the criteria in supervisory guidance, rather than against the PMOS. In taking this position, FHFA, through DER, has supplanted the binding, legally enforceable PMOS with unenforceable statements of policy set forth in its supervisory guidance. That position is out of step with FHFA's peer federal financial regulators. These regulators have adopted final rules clarifying that non-compliance with their safety and soundness standards can create a basis for supervisory action, but that supervisory guidance is unenforceable. Further, FHFA has not adopted any written policy or guidance explaining the interplay between the application of the PMOS, which are enforceable, and supervisory guidance, which is not, during examinations. Under DER's current examination practice, FHFA is not positioned to ensure that the Enterprises comply with FHFA's PMOS because it is not assessing their practices to determine whether those practices fail to meet the PMOS. To address FHFA's failure to use PMOS as criteria in its supervision of the Enterprises, we recommended that FHFA:

1. Revise the PMOS, to the extent necessary, to establish criteria to be used in examinations of the regulated entities;
2. Issue clear internal guidance to examination personnel on the use of the PMOS as criteria in supervisory activities; and
3. Issue a formal position on the use of non-binding supervisory guidance as criteria for supervisory activities.

In its written management response, FHFA advised that it will respond to recommendation 1 within 120 days of the report issuance date, due to the level of effort and stakeholder input needed to make a decision on whether revisions to PMOS are necessary. FHFA agreed with recommendation 2 and disagreed with recommendation 3, which we closed as rejected.

[FHFA's Division of Enterprise Regulation Did Not Follow or Train to its Procedures for Information Sharing of Enterprise Counterparty Performance Issues](#)

(AUD-2021-014, September 28, 2021)

In the course of their operations, the Enterprises rely on counterparties to provide services that are critical to their business such as mortgage servicing, mortgage insurance, single-family mortgage-backed security issuance and administration, and technology functions. FHFA's DER, in support of its supervisory activities, issued an OPB in August 2013 titled *Information Sharing of Counterparty Performance Issues*; that same OPB was reissued in February 2020 without content change. This OPB sets forth the expectations and establishes the protocol to follow regarding when critical information about one Enterprise is to be shared, how it is to be shared, and what the responsibilities of the examination team(s) will be upon receipt of the information, including documentation requirements. We conducted this audit to determine whether DER followed its guidance when a counterparty performance issue was identified at an Enterprise. We found that DER did not follow the procedures in the OPB when it shared information on counterparty performance issues; DER officials told us while examiners had shared such information, they were unaware of the OPB and had not been trained to it. Further, adherence to the OPB and its reissuance in February 2020 was not subjected to DER's quality control process. We also found that FHFA's Office of General Counsel (OGC) is reviewing the OPB for possible recasting as an Agency-wide policy and procedures document for information sharing of counterparty performance issues. FHFA agreed with our recommendations that it:

1. Complete, in an expeditious manner, the recasting of DER's OPB on information sharing of counterparty performance issues as an Agency-wide policy and procedure document, and
2. Once recommendation 1 is completed, ensure that the Agency-wide policy and procedure document on information sharing of counterparty performance issues is implemented and trained to.

FHFA Lacked Documentation of its Validation of Data Used to Produce the Third Quarter 2020 Seasonally Adjusted, Expanded-Data FHFA HPI and Failed to Timely Review its Information Quality Guidelines (AUD-2021-010, July 22, 2021)

By law, the Enterprises can only acquire single-family mortgages with origination balances below a specific dollar amount, known as a “conforming loan limit.” FHFA is required, by statute, to set a “baseline” conforming loan limit each year as well as conforming loan limits for higher cost and other geographic locations. On November 24, 2020, FHFA set the 2021 baseline conforming loan limit at \$548,250, an increase from \$510,400 in 2020. A critical element in establishing annual conforming loan limits is the seasonally adjusted, expanded-data FHFA House Price Index (expanded-data HPI). The expanded-data HPI, produced quarterly, is built on housing transaction information received from four sources: the two Enterprises, the Federal Housing Administration, and contractor-provided county recorder data. We performed the audit to determine whether FHFA followed its written procedures for ensuring the reliability of data used to create the third quarter 2020 (2020 Q3) expanded-data HPI, which was used to establish the 2021 conforming loan limits. This audit focused on FHFA’s controls over determining the reliability of data it received from each of the four sources to generate the 2020 Q3 expanded-data HPI. We found FHFA’s Division of Research and Statistics (DRS) lacked documentation that showed it followed procedures to validate record counts and property addresses for data provided by the sources used to produce the 2020 Q3 expanded-data HPI. DRS’ procedures also did not set reasonable expectation ranges and therefore lacked a basis on which to validate property address data provided by two sources. Where possible, we performed tests of the data provided by the four sources based on DRS’ procedures; those tests revealed that the data provided from the sources conformed to the standard prescribed in DRS’ procedures. We also found that FHFA failed to timely review its December 2017 Information Quality Guidelines, as directed by the Office of Management and Budget (OMB) in 2019. To address the identified shortcomings, we recommended that FHFA:

1. Enhance guidance and HPI production processes to include written requirements that DRS document its performance of validation procedures and when necessary, follow-up on exceptions or anomalies identified through those procedures;
2. Enhance guidance and HPI production processes to establish reference numbers for address scrubbing success rates for FHA and CoreLogic data; and
3. Complete in an expedited manner, its evaluation and development activities related to the FHFA Information Quality Guidelines in response to OMB’s 2019 directive and update the Guidelines, as deemed necessary.

FHFA partially agreed with recommendation 1, but stated that it may not document successful validation checks. This does not meet the intent of recommendation 1 so we consider it closed as rejected. FHFA agreed with recommendations 2 and 3. During the reporting period, FHFA

took corrective action to address recommendation 2, so we consider recommendation 2 closed, implemented.

[Enterprise Counterparties: Reinsurers](#) (WPR-2021-007, September 27, 2021)

Reinsurance is a mechanism by which insurance companies manage risks and the amount of capital they must hold to support those risks. As a contract of indemnity between an insurer and reinsurer, reinsurance is often colloquially referred to as “insurance for insurance companies.” The Enterprises have both direct and indirect counterparty exposure to reinsurers. According to an internal document, Fannie Mae considers the counterparty credit risk associated with mortgage insurers and reinsurers to be one of the top risks to its business before taking into account the controls the Enterprise has in place to mitigate the risk. FHFA told us that the exposure to reinsurers is significantly less than the exposure to mortgage insurers. In an internal document, Freddie Mac identified third-party risk, a category that includes reinsurers, as one of its top risks. However, Freddie Mac does not view reinsurance counterparty risk as a primary factor that influences the magnitude of third-party risk.

Both Enterprises identified reinsurer-related counterparty risk mitigants, including eligibility standards, collateral, and managing exposure. Fannie Mae told us that, after considering mitigants, it would characterize its residual risk as very manageable and very low. Freddie Mac assessed the residual risk of the Enterprise incurring material losses from reinsurance counterparties as low on both an absolute basis and relative to other counterparty types. FHFA expressed that, after application of mitigants, the risk to the Enterprises posed by reinsurers remains relatively low at this point.

[Compliance Review of FHFA’s Suspended Counterparty Program](#) (COM-2021-008, August 25, 2021)

Under FHFA’s Suspended Counterparty Program (SCP), the Agency may suspend a counterparty of the regulated entities from conducting further business with them if the counterparty was convicted of, or sanctioned administratively for, mortgage-related fraud or other financial misconduct within the last three years. In 2017, we found that FHFA’s OGC – which administers the SCP – had a large backlog of SCP referrals to send to the regulated entities for their review, so we recommended that it implement a plan with timeliness standards to prevent future backlogs. Our 2019 compliance review found that OGC had not done so, and we re-opened our recommendation. OGC stated that it would transmit SCP referrals to the regulated entities for review within “approximately” 90 days of OGC having received them unless there was a documented showing of good cause for delay. We closed the recommendation on September 10, 2019.

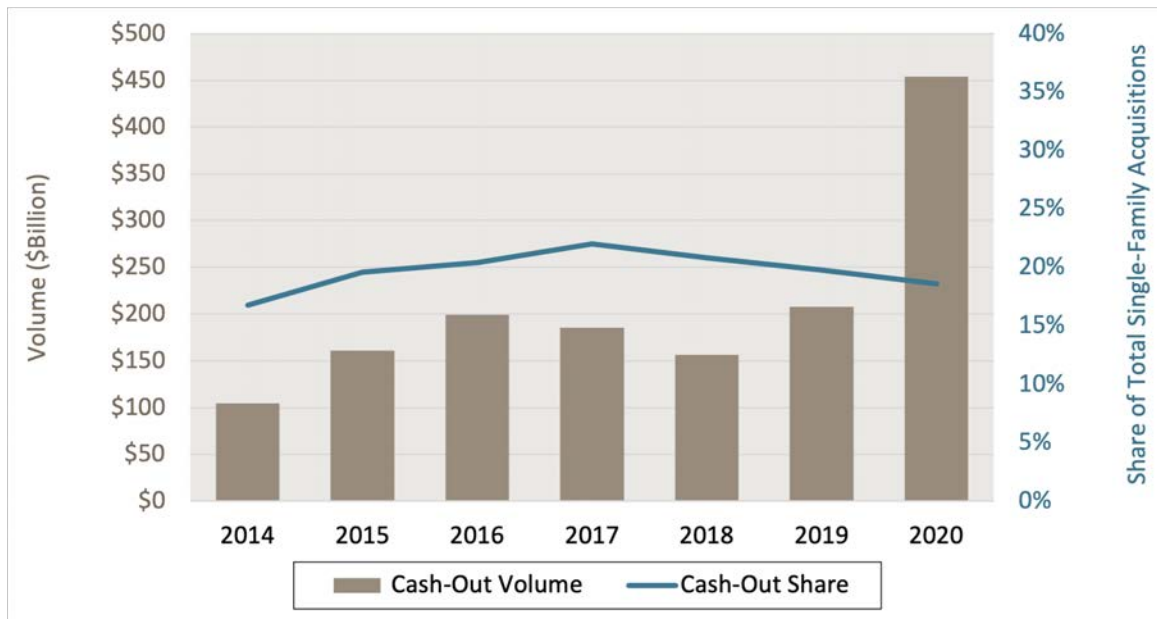
This compliance review tested OGC’s adherence to its new timeliness standard for the 44 referrals received from October 1, 2019, through November 30, 2020. We found that OGC implemented a “dashboard” that provides information about the referrals, but OGC does not track SCP referral

deadlines. OGC has requested that FHFA’s technology office add alerts for the appropriate 90-day period but does not know when such alerts will become operational, and it has not implemented another process to track referral deadlines. Because two consecutive compliance reviews found that OGC had not implemented effective timeliness standards for SCP referrals, we closed our 2017 recommendation as rejected.

[Recent Trends in Enterprise Cash-Out Refinances](#) (WPR-2021-008, September 27, 2021)

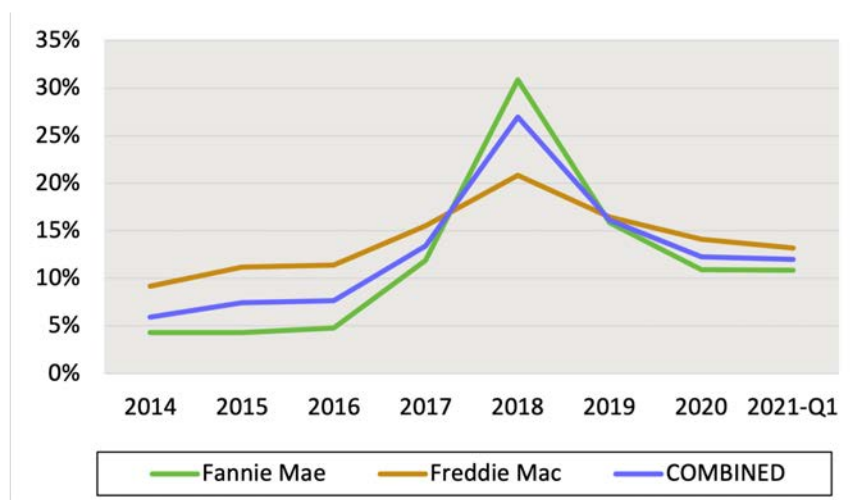
Cash-out refinances allow borrowers to extract equity from mortgaged properties with no restriction on how to use the funds. The Enterprises publicly report that cash-out refinances have a higher risk of default than purchase loans or other refinances. For this report, FHFA clarified for us that cash-out refinances have a higher risk of default if all other attributes of the loan are the same. According to FHFA, cash-out refinances can pose increased credit risk to the Enterprises when layered with other risk factors such as high DTI ratio or low credit score.

ENTERPRISE CASH-OUT VOLUME AND SHARE OF SINGLE-FAMILY ACQUISITIONS, 2014-2020



Source: OIG analysis of information provided by FHFA.

In 2020, in line with general single-family volume, Enterprise acquisitions of cash-out refinances more than doubled to \$454 billion, compared to \$207 billion in 2019. However, the share of cash-out refinances remained relatively stable at 19%. According to Enterprise reporting and our analysis of data from FHFA, the share of Enterprise cash-out refinances with additional risk layers grew between 2017 and 2019 but has since decreased.

SHARE OF ENTERPRISE CASH-OUT REFINANCES WITH DTI > 45%

Source: OIG analysis of information provided by FHFA.

Like the housing boom of the early to mid-2000s, the recent increase in refinances occurs amid declining interest rates and increasing home prices. However, the types of loans the Enterprises have acquired recently are different from those they acquired in the early to mid-2000s. Certain higher risk loan products that were widespread in the early to mid-2000s are no longer accepted by the Enterprises. Additionally, FHFA reports it has been working with the Enterprises to reduce acquisitions with multiple risk factors. FHFA officials recently highlighted to us that in their reviews, cash-out refinances are performing better than purchase loans for a certain measure of default. While cash-out refinance volumes have remained high in 2021, FHFA and both Enterprises report no material concerns with the directionality of related risk.

Other Reports Issued During the Semiannual Period

In addition to the nine significant reports summarized above, OIG issued 11 other reports during this reporting period. Below, we group these reports according to each of the four management and performance challenges and significant management concern.

Conservatorship Operations

- [Compliance Review of FHFA's Handling of Fannie Mae's Confidential Conservator Requests](#) (COM-2021-006, July 21, 2021)

Supervision of the Regulated Entities

- [DBR Generally Followed its Guidance to Assess the Remediation of Adverse Examination Findings Issued to the FHLBanks and the Office of Finance](#) (AUD-2021-012, September 2, 2021)

- [Compliance Review of DBR’s Quality Control for Examination Work Performed by Examiners-in-Charge](#) (COM-2021-007, August 25, 2021)
- [Enterprise Multifamily Variable-Rate Mortgages](#) (WPR-2021-005, August 25, 2021)
- [Compliance Review of DBR’s Assessment and Documentation of Critical Cybersecurity Controls in Examinations of the FHLBank System](#) (COM-2021-005, June 15, 2021)

Cybersecurity at FHFA and the Regulated Entities

- [Audit of the Federal Housing Finance Agency’s 2021 Privacy Program](#) (AUD-2021-011, August 11, 2021)

Counterparties and Third Parties

- [Interconnectedness of Enterprise Counterparties with a Common Parent Company](#) (WPR-2021-006, September 27, 2021)

Agency Operations and Internal Controls

- [FHFA Did Not Follow its Interim Directive on a Requirement to Use a FAR Clause Intended to Protect Whistleblower Rights of Contractor Employees, But Has Since Taken Corrective Action](#) (AUD-2021-015, September 30, 2021)
- [Summary of Administrative Inquiry: The Office of Inspector General’s Review of Allegations that a Senior Agency Executive Asked Job Candidates and Subordinate Employees about Their National Origin and Made Racially Insensitive Comments](#) (OIG-2021-002, July 14, 2021)
- [FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA’s Excellence Awards Were Not Included in Agency Policy](#) (AUD-2021-008, June 17, 2021)
- [Risk Assessment of FHFA’s Government Purchase Card and Travel Card Programs April 1, 2020 – March 31, 2021](#) (OIG-RA-2021-001, June 17, 2021)

IG Act Information Concerning Reports

During the period ending September 30, 2021, OIG issued no reports that included recommendations with questioned costs, unsupported costs, or funds to be put to better use by management.

No reports issued before April 1, 2021, are currently awaiting an FHFA management decision, nor are there reports for which OIG did not receive a response within 60 days of issuing a report to the Agency for comment. In addition, FHFA did not significantly revise any management decisions during this period.

During this period, there were no significant management decisions with which the Inspector General disagreed.

Recommendations

Significant, Open Recommendations

The following table contains all open recommendations from the reporting period ending September 30, 2021, and previous semiannual reporting periods. For a regularly updated list of all open recommendations, see OIG's monthly [Compendium of Open Recommendations](#).

Significant, Open Recommendation	Report Title and Date
Conservatorship: FHFA, as conservator, should determine the appropriate disciplinary action against the CEO for his non-disclosure and untimely disclosures of COI matters.	Corporate Governance: Fannie Mae Senior Executive Officers and Ethics Officials Again Failed to Follow Requirements for Disclosure and Resolution of Conflicts of Interest, Prompting the Need for FHFA Direction (EVL-2021-001, March 15, 2021)
Conservatorship: FHFA, as conservator, should provide timely instruction to the Fannie Mae Board regarding FM Ethics' authority to interpret CEO mitigation plans where new facts are presented.	Corporate Governance: Fannie Mae Senior Executive Officers and Ethics Officials Again Failed to Follow Requirements for Disclosure and Resolution of Conflicts of Interest, Prompting the Need for FHFA Direction (EVL-2021-001, March 15, 2021)
Conservatorship: In accordance with Recommendation 2, FHFA, as conservator, should direct the Fannie Mae Board and/or management to amend and clarify the appropriate COI governance documents to identify all instances in which FM Ethics is required to submit COI matters involving the CEO to the NGC for its resolution.	Corporate Governance: Fannie Mae Senior Executive Officers and Ethics Officials Again Failed to Follow Requirements for Disclosure and Resolution of Conflicts of Interest, Prompting the Need for FHFA Direction (EVL-2021-001, March 15, 2021)

Significant, Open Recommendation	Report Title and Date
<p>Conservatorship: FHFA should direct FHFA employees to monitor the review and resolution of Senior Executive Officer disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.</p>	<p><u>Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</u> (EVL-2018-001, January 31, 2018)¹</p>
<p>Supervision: FHFA should develop and implement procedures that require: (a) examiners to document their reasons for not using the Enterprise Examination Manual to develop procedures documents for targeted examinations, and (b) management to analyze the documented reasons for not using the Enterprise Examination Manual to make improvements as needed (e.g., improvements to the manual, improvements to training to reinforce management's expectations, etc.).</p>	<p><u>FHFA's Use of its Enterprise Examination Manual, in Practice, Does Not Align with its Goal of Promoting a Consistent Examination Approach or Meet Management's Expectations</u> (AUD-2021-013, September 28, 2021)</p>
<p>Supervision: FHFA should revise the PMOS, to the extent necessary, to establish criteria to be used in examinations of the regulated entities.</p>	<p><u>FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines</u> (OIG-2021-004, September 20, 2021)</p>
<p>Supervision: FHFA should issue clear internal guidance to examination personnel on the use of the PMOS as criteria in supervisory activities.</p>	<p><u>FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines</u> (OIG-2021-004, September 20, 2021)</p>
<p>Supervision: FHFA should reinforce to Division of Federal Home Loan Bank Regulation (DBR) examiners, through supervision and training, to ensure: (a) all remediation points for adverse examination findings are addressed or carried forward in accordance with DBR guidance prior to closing the finding, and (b) required reviews of findings management system data input are performed and documented, and errors corrected.</p>	<p><u>DBR Generally Followed its Guidance to Assess the Remediation of Adverse Examination Findings Issued to the FHLBanks and the Office of Finance</u> (AUD-2021-012, September 2, 2021)</p>

¹ This recommendation is being held open pending the completion of a related 2021 FHFA planned supervisory activity in response to the second recommendation of EVL-2021-001, and OIG's assessment of that supervisory activity.

Significant, Open Recommendation	Report Title and Date
Supervision: FHFA should update DBR guidance to include written requirements to address management’s expectations that: (a) reviews by the FHLBanks’ and Office of Finance’s internal audit functions are included in adverse finding remediation packages and reviewed by DBR examiners, and (b) approvals of adverse finding remediation due date extensions are documented.	<u>DBR Generally Followed its Guidance to Assess the Remediation of Adverse Examination Findings Issued to the FHLBanks and the Office of Finance</u> (AUD-2021-012, September 2, 2021)
Supervision: FHFA should revise the December 2020 Operating Procedures Bulletin to establish specific guidance with respect to the circumstances under which DER expects examiners to follow examination procedures in the Work Programs.	<u>Management Advisory: FHFA Must Resolve the Conflicts in its Guidance for Examinations of the Enterprises to Meet its Commitment to Develop and Maintain a World Class Supervision Program</u> (OIG-2021-003, September 1, 2021)
Supervision: FHFA should align the guidance in the governing Operating Procedures Bulletin with the guidance in the Work Programs in order to foster consistent examination practice.	<u>Management Advisory: FHFA Must Resolve the Conflicts in its Guidance for Examinations of the Enterprises to Meet its Commitment to Develop and Maintain a World Class Supervision Program</u> (OIG-2021-003, September 1, 2021)
Supervision: FHFA should revise DBR’s quality control procedures to specifically require that all examination workpapers supporting examination findings, conclusions, and ratings directly prepared by the examiner-in-charge be reviewed by an individual who did not participate in the examination. [Closed in October 2019; reopened upon results of compliance testing.]	<u>FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank</u> (AUD-2019-008, July 10, 2019) and <u>Compliance Review of DBR’s Quality Control for Examination Work Performed by Examiners-in-Charge</u> (COM-2021-007, August 25, 2021)
Supervision: FHFA should define the term “supervisory concern” as it is used in FHFA’s corporate governance regulation.	<u>FHFA’s Failure to Define and Clearly Communicate “Supervisory Concerns” Hinders the Enterprise Boards’ Ability to Execute Their Oversight Obligations Under FHFA’s Corporate Governance Regulation and Renders the Regulation Ineffective as a Supervisory Tool</u> (EVL-2021-003, March 30, 2021)

Significant, Open Recommendation	Report Title and Date
Supervision: FHFA should develop examination guidance that explains how supervisory concerns should be described and categorized in the ROEs, establishes DER's expectations for timely and appropriate remediation for each such concern, and prescribes how such concerns should be monitored until they are fully remediated.	<u>FHFA's Failure to Define and Clearly Communicate "Supervisory Concerns" Hinders the Enterprise Boards' Ability to Execute Their Oversight Obligations Under FHFA's Corporate Governance Regulation and Renders the Regulation Ineffective as a Supervisory Tool</u> (EVL-2021-003, March 30, 2021)
Supervision: Going forward, FHFA should ensure a risk assessment for Common Securitization Solutions, LLC (CSS) is prepared and approved annually in accordance with DER requirements.	<u>FHFA's Failure to Include the Financial Crimes and Model Components in its CSS Risk Assessment Is Inconsistent with a Risk-Based Approach to Supervision</u> (AUD-2021-005, March 23, 2021)
Supervision: FHFA should include all required components, including the Financial Crimes and Model components, when preparing the annual risk assessment for CSS.	<u>FHFA's Failure to Include the Financial Crimes and Model Components in its CSS Risk Assessment Is Inconsistent with a Risk-Based Approach to Supervision</u> (AUD-2021-005, March 23, 2021)
Supervision: FHFA should ensure that the Office of Housing and Regulatory Policy (OHRP) (a) develops and issues written guidance to the Enterprises on the data elements to be reported regularly for FHFA's monitoring of the 97% LTV mortgage programs and (b) establishes quality control procedures to ensure that information reported by the Enterprises is reliable and conforms to the requirements of the written guidance.	<u>Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives</u> (AUD-2020-014, September 29, 2020)
Supervision: FHFA should clarify and reinforce OHRP's guidance regarding the frequency of 97% LTV mortgage program monitoring dashboard preparation to OHRP staff and ensure that the monitoring dashboards are prepared and reviewed in accordance with that guidance.	<u>Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives</u> (AUD-2020-014, September 29, 2020)
Supervision: FHFA should determine the appropriate threshold or criteria for charging off delinquent single-family loans at the Enterprises and communicate that threshold or criteria through revised or new Agency guidance.	<u>More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations</u> (EVL-2020-003, September 10, 2020)

Significant, Open Recommendation	Report Title and Date
Supervision: FHFA should assess the Enterprises' implementation of the revised or new Agency guidance to ensure that the Enterprises' practices comport with FHFA's supervisory expectations.	<u>More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations</u> (EVL-2020-003, September 10, 2020)
Supervision: FHFA should assess whether Fannie Mae's remediation of its [redacted] is sufficient.	<u>FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight</u> (EVL-2020-002, August 27, 2020)
Supervision: FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented in writing. That process should include: <ul style="list-style-type: none"> Identifying the current examination skills and competencies of its examiners; Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs; Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and Addressing that gap. 	<u>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac</u> (AUD-2020-004, February 25, 2020) ²
Supervision: FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	<u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u> (EVL-2014-002, December 19, 2013) and <u>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac</u> (AUD-2020-004, February 25, 2020)

² As discussed in our last semiannual report, FHFA represented that its Agency-wide "Organizational Optimization Blueprint" project would address the spirit of this recommendation. As of the end of this semiannual reporting period, it is our understanding that the Agency's action plan for the Organizational Optimization Blueprint project has been approved and a contractor has been engaged to develop a DER Strategic Workforce Report and a Strategic Workforce Planning Playbook. While the approach and proposed timeline for this project addresses the key aspects of the recommendation, this recommendation is open pending the completion of the project as it applies to the implementation of a systematic workforce planning process for DER.

Significant, Open Recommendation	Report Title and Date
<p>Supervision: FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.</p>	<p><u>Update on FHFA’s Efforts to Strengthen its Capacity to Examine the Enterprises</u> (EVL-2014-002, December 19, 2013) and <u>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac</u> (AUD-2020-004, February 25, 2020)</p>
<p>Supervision: 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 Matter Requiring Attention (MRA) tracking system. [Closed in September 2017; reopened upon results of compliance testing.]</p>	<p><u>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</u> (EVL-2016-007, July 14, 2016) and <u>Compliance Review of the Timeliness of FHFA’s Assessments of the Enterprises’ Remediation Closure Packages for a Matter Requiring Attention</u> (COM-2020-001, February 21, 2020)</p>
<p>Supervision: FHFA’s Office of Minority and Women Inclusion should ensure that quality control reviews are performed before issuing diversity and inclusion examination findings to a regulated entity, as required by Supervision Directive 2017-01.</p>	<p><u>Compliance Review of FHFA’s Office of Minority and Women Inclusion</u> (COM-2019-005, June 24, 2019)</p>
<p>Supervision: FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of government-sponsored enterprise examinations.</p>	<p><u>OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</u> (COM-2015-001, July 29, 2015) and <u>FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</u> (COM-2018-006, September 6, 2018)³</p>

³ OIG has twice determined that the Housing Finance Examiner Commission Program was not on track to produce commissioned examiners. This recommendation is open pending FHFA actions to assess and address the Program’s shortfalls and OIG’s assessment of those corrective actions.

Significant, Open Recommendation	Report Title and Date
<p>Supervision: FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor the [redacted] programs and certain matters.</p>	<p><u>FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</u> (AUD-2018-008, March 28, 2018)⁴</p>
<p>Supervision: FHFA should reinforce, through training and supervision of DER personnel, the requirements established by FHFA, and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ol style="list-style-type: none"> Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011) Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010) 	<p><u>FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</u> (AUD-2017-010, September 27, 2017); and <u>FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</u> (AUD-2017-011, September 27, 2017)⁵</p>

4 This recommendation is being held open pending OIG’s assessment of a supervisory activity that FHFA completed during the 2020 examination cycle related to the underlying deficiency of the MRA discussed in this report.

5 This recommendation is being held open based on the results of audit reports [FHFA’s Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS](#) (AUD-2019-012, September 17, 2019) and [FHFA’s Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue](#) (AUD-2019-013, September 17, 2019), which identified that timely completion of targeted examinations prior to issuance of the Enterprises’ ROEs improved but continued to be an issue. OIG plans to periodically follow-up on FHFA’s actions to further improve its timely completion of examinations within the examination cycle.

Significant, Open Recommendation	Report Title and Date
<p>Supervision: 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><u>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</u> (AUD-2016-007, September 30, 2016); and <u>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</u> (AUD-2016-006, September 30, 2016); and <u>FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</u> (AUD-2017-010, September 27, 2017)⁶</p>
<p>Counterparties and Third Parties: FHFA should complete, in an expeditious manner, the recasting of DER's OPB on information sharing of counterparty performance issues as an Agency-wide policy and procedure document.</p>	<p><u>FHFA's Division of Enterprise Regulation Did Not Follow or Train to its Procedures for Information Sharing of Enterprise Counterparty Performance Issues</u> (AUD-2021-014, September 28, 2021)</p>
<p>Counterparties and Third Parties: Once recommendation 1 (referenced directly above) is completed, FHFA should ensure that the Agency-wide policy and procedure document on information sharing of counterparty performance issues is implemented and trained to.</p>	<p><u>FHFA's Division of Enterprise Regulation Did Not Follow or Train to its Procedures for Information Sharing of Enterprise Counterparty Performance Issues</u> (AUD-2021-014, September 28, 2021)</p>
<p>Counterparties and Third Parties: FHFA should ensure that DER uses its full range of available examination activities, including targeted examinations and when appropriate, enhanced risk monitoring, to provide comprehensive assessments of known areas of high risk, like Fannie Mae's reliance on third-party vendors.</p>	<p><u>Despite FHFA's Acknowledgement that Enterprise Reliance on Third-Parties Represents a Significant Operational Risk, No Targeted Examinations of Fannie Mae's Third-Party Risk Management Program Were Completed Over a Seven-Year Period</u> (AUD-2021-007, March 29, 2021)</p>

⁶ We are reporting the recommendation as open pending an assessment of FHFA actions taken in response the recommendation in [Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac](#) (AUD-2020-004, February 25, 2020). For further discussion, see footnote 2.

Significant, Open Recommendation	Report Title and Date
Information Technology: FHFA should update the privacy impact assessments using the privacy impact assessments template for Affordable Housing Project, Federal Human Resources Navigator, and Suspended Counterparty System.	<u>Audit of the Federal Housing Finance Agency's 2021 Privacy Program</u> (AUD-2021-011, August 11, 2021)
Information Technology: FHFA should ensure privacy impact assessments are conducted timely using the privacy impact assessments template in accordance with the FHFA Privacy Program Plan (i.e., before a new system is developed, after a significant change to a system, or within three years of the privacy impact assessments).	<u>Audit of the Federal Housing Finance Agency's 2021 Privacy Program</u> (AUD-2021-011, August 11, 2021)
Information Technology: FHFA should update the Privacy Continuous Monitoring Strategy to ensure that it reflects the FHFA's current privacy control assessment process in accordance with OMB Circular A-130.	<u>Audit of the Federal Housing Finance Agency's 2021 Privacy Program</u> (AUD-2021-011, August 11, 2021)
Information Technology: FHFA should develop and implement Privacy Control Assessment plans, that include all required elements.	<u>Audit of the Federal Housing Finance Agency's 2021 Privacy Program</u> (AUD-2021-011, August 11, 2021)
Information Technology: FHFA should ensure Privacy Control Assessments are performed for all systems that collect personally identifiable information (PII).	<u>Audit of the Federal Housing Finance Agency's 2021 Privacy Program</u> (AUD-2021-011, August 11, 2021)
Information Technology: FHFA should send Employment Matters Tracking System [redacted] for correlation and analysis.	<u>Audit of an FHFA Sensitive Employment-Related Case Tracking System: FHFA Followed its Access Control Standard, But its System Is Adversely Impacted by Two Security Control Weaknesses</u> (AUD-2021-006, March 29, 2021)
Information Technology: Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly. (7 open recommendations)	<u>Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2020</u> (AUD-2021-001, October 20, 2020)

Significant, Open Recommendation	Report Title and Date
Information Technology: FHFA should modify existing cloud-based GSS Tool contracts to include the required IT security provisions and ensure future cloud-based GSS Tool contracts include all required provisions.	<u>FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts</u> (AUD-2020-013, September 17, 2020)
Information Technology: Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly. (1 open recommendation)	<u>Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</u> (AUD-2020-001, October 25, 2019)
Information Technology: FHFA should ensure that outdated [redacted] and [redacted] protocols in FHFA's systems are disabled or upgraded in a timely manner in accordance with National Institute of Standards and Technology (NIST) directives.	<u>2019 Internal Penetration Test of FHFA's Network and Systems</u> (AUD-2019-014, September 24, 2019) ⁷
Information Technology: FHFA should determine privacy controls that are information system-specific, and/or hybrid controls.	<u>Audit of the Federal Housing Finance Agency's 2019 Privacy Program</u> (AUD-2019-009, August 28, 2019)
Information Technology: FHFA should document privacy controls within each system's system security plan or system-specific privacy plan, clearly identifying whether controls are program level, common, information system-specific, or hybrid.	<u>Audit of the Federal Housing Finance Agency's 2019 Privacy Program</u> (AUD-2019-009, August 28, 2019)
Information Technology: FHFA should comply with Financial Stability Oversight Council (FSOC) recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.	<u>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</u> (EVL-2016-003, March 28, 2016) ⁸
Information Technology: 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.	<u>FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</u> (EVL-2016-003, March 28, 2016) ⁹

7 OIG is reviewing recently provided documentation to assess whether the Agency has adequately addressed this recommendation.

8 OIG is reviewing additional documentation provided by FHFA to assess whether the Agency has adequately addressed this recommendation.

9 See prior footnote.

Significant, Open Recommendation	Report Title and Date
<p>Agency Operations/Internal Controls: FHFA should reinforce to Contracting Officers, through training and supervision, the requirement in the updated peer review checklists and in the revised Acquisition Procedures Manual to include Federal Acquisition Regulation clause 52.203-17 in all open market solicitations and awards that exceed the Simplified Acquisition Threshold.</p>	<p><u>FHFA Did Not Follow its Interim Directive on a Requirement to Use a FAR Clause Intended to Protect Whistleblower Rights of Contractor Employees, But Has Since Taken Corrective Action</u> (AUD-2021-015, September 30, 2021)</p>
<p>Agency Operations/Internal Controls: FHFA should complete in an expedited manner, its evaluation and development activities related to FHFA Information Quality Guidelines in response to M-19-15, the OMB's Memorandum on Improving Implementation of the Information Quality Act, and update the Guidelines, as deemed necessary.</p>	<p><u>FHFA Lacked Documentation of its Validation of Data Used to Produce the Third Quarter 2020 Seasonally Adjusted, Expanded-Data FHFA HPI and Failed to Timely Review its Information Quality Guidelines</u> (AUD-2021-010, July 22, 2021)</p>
<p>Agency Operations/Internal Controls: FHFA should reinforce FHFA's program policies and procedures through a reminder to FHFA supervisors and senior officials involved in initiating, reviewing, and approving monetary awards, recruitment bonuses, and retention allowances to:</p> <ul style="list-style-type: none"> • Obtain the requisite concurrence from the supervisors of record and second-level supervisors, when applicable, for monetary awards; • Ensure documentation supporting recruitment bonuses for non-executive, mission-critical positions cite how the positions were recruitment challenges; and • Ensure documentation supporting retention allowances cite that non-executive employees were offered non-FHFA employment or applied for retirement. 	<p><u>FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA's Excellence Awards Were Not Included in Agency Policy</u> (AUD-2021-008, June 17, 2021)</p>
<p>Agency Operations/Internal Controls: FHFA should ensure that the Excellence Awards program is included in the planned revision to the FHFA Awards Policy before such awards are made again.</p>	<p><u>FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA's Excellence Awards Were Not Included in Agency Policy</u> (AUD-2021-008, June 17, 2021)</p>

Significant, Open Recommendation	Report Title and Date
<p>Agency Operations/Internal Controls: Going forward, FHFA should ensure Annual Risk Profiles include all significant risk response action items designed to reduce identified residual risks, such as FHFA’s “organizational optimization Blueprint” project, along with identifying the owners of those risk response action items and target completion dates.</p>	<p><u>FHFA Followed OMB Guidance in Implementing its Enterprise Risk Management Program But its 2020 Risk Profile Failed to Identify a Significant Action Underway to Address Acknowledged Supervision Risk</u> (AUD-2021-004, March 17, 2021)</p>
<p>Agency Operations/Internal Controls: FHFA should develop written policies and procedures for its Enterprise Risk Management program.</p>	<p><u>FHFA Followed OMB Guidance in Implementing its Enterprise Risk Management Program But its 2020 Risk Profile Failed to Identify a Significant Action Underway to Address Acknowledged Supervision Risk</u> (AUD-2021-004, March 17, 2021)</p>
<p>Agency Operations/Internal Controls: FHFA should include all National Archives and Records Administration-required content topics in annual records management training provided to FHFA employees and contractor employees.</p>	<p><u>FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements</u> (AUD-2020-008, March 26, 2020)</p>
<p>Agency Operations/Internal Controls: FHFA should develop written procedures for carrying out the functions of the Office of the Ombudsman, to include procedures for documenting that all incoming complaints and appeals are tracked, considered, and appropriately resolved. In developing these procedures, the guidance published by the Coalition of Federal Ombudsmen should be taken into consideration.</p>	<p><u>FHFA Should Name an Ombudsman and Document the Office of the Ombudsman’s Procedures</u> (AUD-2019-011, September 16, 2019)¹⁰</p>

¹⁰ This recommendation is being held open pending the receipt of additional procedures FHFA is developing that would cover processes for tracking and reporting on complaint submissions.

Closed, Rejected Recommendations and Potential Cost Savings

The following table contains recommendations closed as rejected, including four during this reporting period. See OIG’s [Compendium of Open Recommendations](#) for a comprehensive list, updated monthly, of all recommendations closed as rejected. We currently have 48 recommendations that were rejected by the Agency. OIG has identified a total potential cost savings of \$893,525,860¹¹ based on our oversight of Agency operations and programs.

Closed, Rejected Recommendation	Report Title and Date
Conservatorship: FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae’s continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the Chief Executive Officer and President positions, with annual compensation capped at \$600,000 since 2015.	FHFA’s Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-001, March 26, 2019)
Conservatorship: FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac’s continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the Chief Executive Officer responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA’s representation that Candidate A will leave Freddie Mac if he is not selected for the Chief Executive Officer position.	FHFA’s Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-002, March 26, 2019)
Conservatorship: To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties.	Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce (OIG-2018-004, September 6, 2018)

¹¹ This figure includes potential aggregate cost savings to the Agency or the Enterprises from specific recommendations, i.e., recommendations of potential funds to be put to better use by management, questioned costs, and other monetary calculations in all OIG oversight reports supporting OIG recommendations and conclusions.

Closed, Rejected Recommendation	Report Title and Date
<p>Conservatorship: To reduce the waste from Option C, FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.</p>	<p><u>Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce</u> (OIG-2018-004, September 6, 2018)</p>
<p>Conservatorship: Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>	<p><u>Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</u> (OIG-2017-004, March 23, 2017)</p>
<p>Conservatorship: Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>	<p><u>Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</u> (OIG-2017-004, March 23, 2017)</p>
<p>Conservatorship: 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.</p>	<p><u>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</u> (COM-2016-004, June 16, 2016)</p>
<p>Conservatorship: FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to the Division of Conservatorship (now known as the Division of Conservatorship Oversight and Readiness) for its review and for FHFA approval through the design and construction of Fannie Mae’s leased space in Midtown Center.</p>	<p><u>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</u> (COM-2016-004, June 16, 2016)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Conservatorship: 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.</p>	<p><u>Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</u> (COM-2016-002, March 17, 2016)</p>
<p>Conservatorship: 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.</p>	<p><u>Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance</u> (COM-2016-002, March 17, 2016)</p>
<p>Conservatorship: FHFA’s Division of Housing Mission and Goals Deputy Director should establish an ongoing process to evaluate servicers’ Servicing Alignment Initiative compliance and the effectiveness of the Enterprises’ remediation efforts.</p>	<p><u>FHFA’s Oversight of the Servicing Alignment Initiative</u> (EVL-2014-003, February 12, 2014)</p>
<p>Conservatorship: FHFA’s Division of Housing Mission and Goals Deputy Director should direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals’ assessment.</p>	<p><u>FHFA’s Oversight of the Servicing Alignment Initiative</u> (EVL-2014-003, February 12, 2014)</p>
<p>Conservatorship: FHFA’s Division of Housing Mission and Goals Deputy Director should regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers’ actual versus expected performance.</p>	<p><u>FHFA’s Oversight of the Servicing Alignment Initiative</u> (EVL-2014-003, February 12, 2014)</p>
<p>Supervision: FHFA should issue a formal position on the use of non-binding supervisory guidance as criteria for supervisory activities.</p>	<p><u>FHFA’s Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director’s Statutory Duty to Ensure the Enterprises Comply with FHFA’s Guidelines</u> (OIG-2021-004, September 20, 2021)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Supervision: FHFA should enhance guidance and House Price Index production processes to include written requirements that FHFA's Division of Research and Statistics document its performance of validation procedures and when necessary, follow-up on exceptions or anomalies identified through those procedures.</p>	<p><u>FHFA Lacked Documentation of its Validation of Data Used to Produce the Third Quarter 2020 Seasonally Adjusted, Expanded-Data FHFA HPI and Failed to Timely Review its Information Quality Guidelines</u> (AUD-2021-010, July 22, 2021)</p>
<p>Supervision: In the current examination cycle, FHFA should assess Fannie Mae's business resiliency practices and capabilities and formally determine whether they meet or fail to meet Prudential Management and Operations Standard 8, Principle 11.</p>	<p><u>For Nine Years, FHFA Has Failed to Take Timely and Decisive Supervisory Action to Bring Fannie Mae into Compliance with its Prudential Standard to Ensure Business Resiliency</u> (EVL-2021-002, March 22, 2021)</p>
<p>Supervision: FHFA should develop examination guidance that establishes criteria and expectations for determining, on an annual basis, whether a regulated entity meets or fails to meet Prudential Management and Operations Standard 8, Principle 11.</p>	<p><u>For Nine Years, FHFA Has Failed to Take Timely and Decisive Supervisory Action to Bring Fannie Mae into Compliance with its Prudential Standard to Ensure Business Resiliency</u> (EVL-2021-002, March 22, 2021)</p>
<p>Supervision: FHFA should establish measurable objectives and risk tolerances for the Enterprises' 97% LTV mortgage programs, such as those for acquisition volume and delinquency rates, so that management can better identify, analyze, and respond to risks related to achieving the programs' objectives.</p>	<p><u>Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives</u> (AUD-2020-014, September 29, 2020)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Supervision: FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented. That process should include:</p> <ul style="list-style-type: none"> Identifying the appropriate number of Enterprise high-risk models to be examined each year through targeted examinations; Identifying the current examination skills and competencies of examiners engaged in supervisory activities of high-risk models; Forecasting the optimal staffing levels and competencies of examiners necessary to complete the identified number of targeted examinations of high-risk models planned for each examination cycle; Evaluating whether a gap exists between skills required to conduct supervision of high-risk models that its examiners currently need but do not possess; and Addressing that gap. 	<p><u>Despite FHFA’s Recognition of Significant Risks Associated with Fannie Mae’s and Freddie Mac’s High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely</u> (EVL-2020-001, March 25, 2020)</p>
<p>Supervision: Based on the results of its workforce analysis, FHFA should conduct a written assessment of whether DER’s current budget for its supervision of high-risk models is sufficient.</p>	<p><u>Despite FHFA’s Recognition of Significant Risks Associated with Fannie Mae’s and Freddie Mac’s High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely</u> (EVL-2020-001, March 25, 2020)</p>
<p>Supervision: FHFA should establish and communicate clear expectations for use of revised and new examination modules by DER examiners.</p>	<p><u>Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance</u> (EVL-2019-003, September 10, 2019)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Supervision: FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.</p>	<p><u>FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</u> (EVL-2018-002, March 28, 2018)</p>
<p>Supervision: FHFA should direct that examiners can use Internal Audit work to assess the adequacy of MRA remediation only if FHFA has concluded that the Internal Audit function is effective overall.</p>	<p><u>FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</u> (EVL-2018-002, March 28, 2018)</p>
<p>Supervision: 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"> • 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 • 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. 	<p><u>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</u> (EVL-2016-009, July 14, 2016)</p>
<p>Supervision: 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><u>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</u> (EVL-2016-009, July 14, 2016)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Supervision: 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).</p>	<p><u>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</u> (EVL-2016-007, July 14, 2016)</p>
<p>Supervision: 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.</p>	<p><u>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</u> (EVL-2016-007, July 14, 2016)</p>
<p>Supervision: 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.</p>	<p><u>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</u> (EVL-2016-007, July 14, 2016)</p>
<p>Supervision: 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.</p>	<p><u>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</u> (EVL-2016-008, July 14, 2016)</p>
<p>Supervision: 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><u>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</u> (EVL-2016-005, March 31, 2016)</p>

Closed, Rejected Recommendation	Report Title and Date
Supervision: 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.	<u>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</u> (EVL-2016-005, March 31, 2016)
Supervision: FHFA should review FHFA's existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and other federal financial regulators including, but not limited to, content of an MRA; standards for proposed remediation plans; approval authority for proposed remediation plans; real-time assessments at regular intervals of the effectiveness and timeliness of an Enterprise's MRA remediation efforts; final assessment of the effectiveness and timeliness of an Enterprise's MRA remediation efforts; and required documentation for examiner oversight of MRA remediation.	<u>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</u> (EVL-2016-004, March 29, 2016)
Supervision: 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.	<u>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</u> (EVL-2016-004, March 29, 2016)
Supervision: 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.	<u>Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities</u> (EVL-2015-001, October 6, 2014)
Counterparties and Third Parties: FHFA should develop and implement a plan containing a timeliness standard by which to eliminate the current backlog of referrals and prevent future backlogs.	<u>FHFA Should Improve its Administration of the Suspended Counterparty Program</u> (COM-2017-005, July 31, 2017)
Counterparties and Third Parties: 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.	<u>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</u> (AUD-2014-018, September 26, 2014)

Closed, Rejected Recommendation	Report Title and Date
<p>Counterparties and Third Parties: 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.</p>	<p><u>FHFA's Representation and Warranty Framework</u> (AUD-2014-016, September 17, 2014)</p>
<p>Counterparties and Third Parties: FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.</p>	<p><u>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</u> (AUD-2014-012, March 25, 2014)</p>
<p>Counterparties and Third Parties: 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.</p>	<p><u>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</u> (AUD-2014-009, February 12, 2014)</p>
<p>Counterparties and Third Parties: 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.</p>	<p><u>FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</u> (AUD-2014-005, January 15, 2014)</p>
<p>Counterparties and Third Parties: FHFA should publish Fannie Mae's reduction targets and overpayment findings.</p>	<p><u>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</u> (EVL-2013-012, September 18, 2013)</p>
<p>Information Technology: FHFA should develop and implement written procedures that define: (a) the pertinent information that needs to be recorded, tracked, and reported for all security incidents and (b) the controls to ensure the accuracy and completeness of the security incident records.</p>	<p><u>FHFA Did Not Record, Track, or Report All Security Incidents to US-CERT; 38% of Sampled FHFA Users Did Not Report a Suspicious Phone Call Made to Test User Awareness of its Rules of Behavior</u> (AUD-2021-009, June 25, 2021)</p>
<p>Information Technology: Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly. (2 recommendations)</p>	<p><u>Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019</u> (AUD-2020-001, October 25, 2019)</p>

Closed, Rejected Recommendation	Report Title and Date
<p>Agency Operations/Internal Controls: FHFA should assess the \$80,985 in costs that we questioned in this report, as well as any additional costs related to disincentives that may have been triggered after our review period. FHFA should take action to recover these costs, as appropriate, and enforce disincentive clauses going forward.</p>	<p><u>Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs</u> (OIG-2020-001, March 3, 2020)</p>
<p>Agency Operations/Internal Controls: FHFA should determine the feasibility for automatically disabling inactive application accounts Correspondence Tracking System and Merit Central/Job Performance Plan at a frequency that fits the business needs and update applicable system policies and procedures, as necessary.</p>	<p><u>Audit of the Federal Housing Finance Agency's 2019 Privacy Program</u> (AUD-2019-009, August 28, 2019)</p>
<p>Agency Operations/Internal Controls: FHFA should implement a control at the application layer to ensure inactive application accounts for Correspondence Tracking System and Merit Central/Job Performance Plan are disabled in accordance with the determined system frequency. If the application does not accommodate automatic disabling of inactive accounts, then consider implementing manual compensating controls (i.e., manually reviewing and disabling dormant accounts) to help mitigate the risk.</p>	<p><u>Audit of the Federal Housing Finance Agency's 2019 Privacy Program</u> (AUD-2019-009, August 28, 2019)</p>
<p>Agency Operations/Internal Controls: FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.</p>	<p><u>Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</u> (AUD-2018-011, September 6, 2018)</p>

Investigative Activity

OIG's investigative mission is to prevent and detect fraud, waste, and abuse in the programs and operations of the FHFA and its regulated entities. OIG's Office of Investigations (OI) executes its mission by investigating allegations of significant criminal and civil wrongdoing that affect the Agency and its regulated entities. OI's investigations are conducted in strict accordance with professional guidelines established by the Attorney General of the United States and CIGIE's *Quality Standards for Investigations*.

OI is comprised of highly-trained law enforcement officers, investigative counsels, analysts, and attorney advisors. We maximize the impact of our criminal and civil law enforcement efforts by working closely with federal, state, and local law enforcement agencies nationwide.

OI is the primary federal law enforcement organization that specializes in deterring and detecting fraud perpetrated against the Enterprises. Collectively, Fannie Mae and Freddie Mac hold more than \$6 trillion worth of mortgages on their balance sheets. Each year, the Enterprises acquire millions of mortgages worth several hundreds of billions of dollars. OI also investigates cases involving the 11 regional FHLBanks and, in some instances, cases involving banks that are members of the FHLBanks.

Fraud schemes that can fall within OI's investigative purview include:

- **Loan/Mortgage Origination** – Typically involves the falsifying of borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Offenders often employ fictitious Social Security numbers and fabricated or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make.
- **Short Sales** – Short sales occur when a lender allows a borrower to sell his/her property for less than the debt owed. Usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale.
- **Loan Modification/Property Disposition** – Fraudulent actors typically advertise that they can secure loan modifications, preying on vulnerable homeowners, 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. These schemes can involve hundreds of victims.
- **Real Estate Owned (REO) homes** – These homes represent collateral seized to satisfy unpaid mortgage loans. 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.

- **Adverse Possession/Distressed Property** – Uses 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.
- **Condo Conversion and Builder Bailout** – Sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure.
- **Multifamily Loans** – Fraud that relates to loans purchased by the Enterprises to finance multifamily properties.
- **Any scheme where Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks are victims.**
- **Coronavirus disease 2019 (COVID) Paycheck Protection Program (PPP) Loans** - FHLBank member banks victimized by the submission of PPP applications with false and misleading statements about a company’s business operations and payroll expenses along with supporting documentation that is fabricated and/or altered to include false federal tax filings and employee payroll records to cause loan approval.

A summary of publicly reportable investigative outcomes can be found in the Criminal Investigative Results section.

Significant Cases

Following are summaries of some of the most significant criminal prosecutions from the six-month reporting period from April 1, 2021, through September 30, 2021.

Business Owner Sentenced to Over 12 Years in Prison in Real Estate Fraud Scheme, California

On August 2, 2021, in the Central District of California, Patrick Soria was sentenced to 152 months in prison and three years supervised release for orchestrating a real estate fraud scheme that victimized more than 2,000 homeowners, involved fraudulent filings that affected the title to properties across the country, and caused more than \$7 million in losses.

As indicated in a previous Semiannual Report to Congress, Soria pleaded guilty to conspiracy to commit wire fraud and contempt of court.

According to court documents, Soria stole money from homeowners and prospective home buyers and also victimized numerous lenders through a two-pronged fraud scheme.

Soria owned and operated a business from his home using various company names. Participants in the scheme identified properties with mortgage liens on the title, the owners of those properties, and potential purchasers. Soria and others would market properties for sale as though one of the Soria-controlled business entities held title to the properties when, in fact, neither Soria nor a Soria-controlled business entity had any ownership interest in the properties or any claim to or right, title, or interest in the mortgage loan securing the property. Rather, Soria and others had filed fraudulent documents on the title to the properties to create the false appearance that Soria-controlled business entities held title. Soria and others in this way would take over title through fictitious filings. Soria never owned the homes, and he instead used the victims' "purchase" money for his own personal expenses, including escort services, stays at luxury hotels, and Bentley and Lamborghini car rentals.

Soria also marketed loan relief and modification services to owner-borrower victims. Soria and others would communicate to victims that an attempt would be made with their lender to renegotiate their mortgage and if renegotiation was not possible, Soria and one of his business entities would take over the loans from the victims' lenders. After the victims would execute paperwork provided by Soria and others, mortgage payments would be made to Soria-controlled business entities. Soria lulled victims into doing nothing to protect themselves when they started receiving foreclosure and eviction notices. Many of the homeowners targeted in the scheme lost their homes. Soria, his business entities, or conspirators had no lawful interest in any of these mortgage loans or the right to collect mortgage payments.

The Enterprises were investors with several loans associated with this scheme.

Seven Conspirators Sentenced in Foreclosure Rescue Scheme, California

Between April and August 2021, seven conspirators were sentenced in Los Angeles County Superior Court for their roles in a foreclosure rescue fraud scheme.

The listed scheme participants were sentenced to the following:

- Eduardo Toro - 88 months in state prison and ordered to pay \$587,144 in restitution, jointly and severally.
- Ana Toro - 18 months in jail, 34 months supervised release, and ordered to pay \$587,144 in restitution, jointly and severally.
- Veronica Romero - 24 months in jail, one year of supervised release, and ordered to pay \$11,191 in restitution, jointly and severally.

- Emmanuel Lopez - 364 days in jail, two years of probation, and ordered to pay \$5,873 in restitution, jointly and severally.
- Filiverto Gomez - 210 days in jail, two years of probation, and ordered to pay \$11,191 in restitution, jointly and severally.
- Maria Gil - 180 days of home confinement, two years of probation, and ordered to pay \$11,191 in restitution, jointly and severally.
- Gladys Velasquez - six months of home confinement and three years of probation.

All seven conspirators previously pleaded guilty to state charges resulting from a 136-count indictment. Another conspirator, Veronica Toro, also pleaded guilty to grand theft of real property, grand theft from an elder or dependent adult, and identity theft, during this reporting period.

As previously reported in a Semiannual Report to Congress, court records revealed that the scheme participants conspired to defraud lenders and homeowners of possession of residential properties. As part of the scheme, the conspirators targeted distressed homeowners claiming they could stop the foreclosure of their homes if they made monthly payments to the participants in the scheme. Instead, they delayed foreclosures and eviction actions by filing fraudulent bankruptcy documents, false court documents, and false fractional interest grant deeds. These documents were sent to the servicers of mortgage loans, which would stop the foreclosure by invoking the bankruptcy “automatic stay.” Many homeowners lost their homes to foreclosure despite paying this group hundreds of dollars a month over the course of many years.

The fraud scheme resulted in approximately \$6 million in loss, including losses to the Enterprises.

Real Estate Broker Sentenced in Short Sale Fraud Scheme, New Jersey

In June 2021, Steve Kang was sentenced to 18 months in prison, three years supervised release, and ordered to pay over \$2.3 million in restitution, jointly and severally, and \$835,248 in a forfeiture money judgment, in the District of New Jersey, for his role in a multi-year scheme to defraud financial institutions and others.

As previously reported in a Semiannual Report to Congress, Kang pleaded guilty to bank fraud and wire fraud affecting a financial institution.

According to court documentation, Kang and others fraudulently induced mortgage lenders to participate in short sale transactions. Kang, who owned and controlled two real estate brokerages, sold his own properties and recruited others to sell properties in fraudulent short sales to scheme participant, Mehdi Kassai, who has also pleaded guilty and is awaiting sentencing.

Kang and Kassai convinced financial institutions to agree to short sales and to accept less than the properties were worth through false documents, straw buyers, and damage to properties. Kang, as a listing broker, also prevented legitimate and higher offers from being made by artificially limiting the ability of others to bid on and buy properties.

Kassai then sold the properties to third parties at a substantial profit. Kang defrauded financial institutions and others of at least \$2.7 million.

Fannie Mae was an investor in some of the properties involved in this scheme; most of the lenders defrauded are FHLBank member banks.

Business Owner Sentenced for Role in Multiple Loan Fraud Schemes, Maryland

On April 29, 2021, in the District of Maryland, Mehul Khatiwala was sentenced to 63 months in prison, four years supervised release, and was ordered to pay over \$3.5 million in restitution and forfeiture in connection with schemes to fraudulently obtain a total of approximately \$15 million in loans from Cecil Bank to purchase a multifamily residential property and hotels. Khatiwala previously pleaded guilty to conspiracy to commit bank fraud and bank fraud as reported in a preceding Semiannual Report to Congress.

According to his plea agreement, Khatiwala and two conspirators executed a scheme to defraud Cecil Bank, the Small Business Administration (SBA), and other financial institutions by misrepresenting material facts in order to obtain financing for the purchase of a multifamily residential property and hotels. Khatiwala defaulted on the loans, causing losses to Cecil Bank and the SBA of more than \$3.5 million, almost entirely attributable to the multifamily residential property.

Cecil Bank is a member bank of the FHLBank of Atlanta.

Guilty Plea by Former President of First Mortgage Company, Oklahoma

On May 10, 2021, in the Western District of Oklahoma, Ronald McCord pleaded guilty to bank fraud, making a false statement to a financial institution, and money laundering for his role in defrauding two FHLBank member banks, Fannie Mae, and others. McCord was previously indicted on the above charges as reported in a prior Semiannual Report to Congress.

McCord was the former President of First Mortgage Company, LLC, an Oklahoma City-based mortgage lending and loan servicing company. McCord was charged with defrauding two FHLBank member banks and their respective residential mortgage subsidiaries, Spirit Bank/American Southwest Mortgage Corporation and Citizens State Bank/American Southwest Mortgage Funding Corporation (Spirit and Citizens). According to the indictment, McCord defrauded Spirit and Citizens by misusing lines of credit, as well as selling loans funded by the banks, many to Fannie Mae, without paying off the lines of credit, leaving the Spirit and Citizens banks' debts out of trust.

Additionally, McCord defrauded Fannie Mae by diverting escrow monies intended to pay homeowners' taxes, insurance, principal, and interest, to cover First Mortgage's operating expenses. As a result, First Mortgage lacked sufficient funds to pay borrowers' real estate tax payments. McCord also purportedly used the diverted escrow monies to write himself checks as well as to pay more than half the purchase price of his son's nearly \$1 million home as well as to build himself a custom vacation home in Colorado.

Business Owner Found Guilty in Multifamily Loan Fraud, Oklahoma

On September 23, 2021, after a bench trial in the Western District of Oklahoma, Kapal Sharma was convicted of bank fraud and making false statements to a financial institution for his role in a multifamily fraud scheme. Sharma was previously charged by indictment with bank fraud, wire fraud, and false statements to a financial institution.

Sharma was the president and partial owner of Route 66 Hospitality, Inc., a company that owned Park Place Apartments.

According to court documentation, Sharma, acting on behalf of Route 66 Hospitality, Inc., applied for a \$3.1 million multifamily loan from Hunt Mortgage, using Park Place Apartments as security for the loan. Sharma submitted false and fraudulent documents regarding the occupancy of Park Place Apartments and submitted false rent rolls that overstated the rents collected and fabricated tenants. Sharma signed bank documents certifying the accuracy of the financials and other documents he provided to Hunt Mortgage and, based on his false representations, Route 66 Hospitality, Inc., qualified and was approved for the Small Balance Loan Program offered by Freddie Mac.

Route 66 Hospitality, Inc., and Sharma did not make payments on the Hunt Mortgage loan, which subsequently went into default.

Freddie Mac suffered \$2 million in losses as a result of this scheme. Sharma's sentencing date has not been scheduled.

Business Owner Pleaded Guilty in Multifamily Fraud Scheme, Tennessee

On August 27, 2021, in the Western District of Tennessee, Victor Torres was charged by information with bank fraud and submitting false records in a bankruptcy proceeding and pleaded guilty to said charges for his role in a scheme to secure a mortgage refinance loan on a multifamily property based on false information.

According to the information, Torres was the President, managing member, owner, and key principal of Huntington Property, LLC. Torres, on behalf of Huntington Property, applied for a \$3.2 million mortgage refinance loan secured by a multifamily property. In the application, Torres falsely indicated that he had not previously been party to any bankruptcy proceedings when he had in fact previously filed for bankruptcy as one-third owner of another company.

After defaulting on the loan, Torres, as the managing member of Huntington Property, then caused a bankruptcy petition to be filed on behalf of Huntington Property containing false and fraudulent financial information.

The subject loan was funded by Fannie Mae.

Unlicensed Mortgage Broker Pleaded Guilty in Loan Origination Scheme, New York

In August 2021, Brent Kaufman was charged by information and pleaded guilty to bank fraud in the Eastern District of New York for his role in a loan origination fraud scheme.

According to the information, Kaufman and others engaged in a scheme to defraud lenders by obtaining, and attempting to obtain, refinancing funds through materially false representations.

In furtherance of the scheme, Kaufman participated in mortgage refinancing closings. Kaufman provided wire routing information to the lenders' representatives that caused the lenders to send funds from new mortgages to accounts controlled by Kaufman, rather than to the financial institutions holding the prior mortgages. As a result, the prior mortgages were not satisfied, leaving the subject properties encumbered by two mortgages.

Kaufman also used some of the funds he obtained through this scheme for his own personal benefit. However, to avoid detection, Kaufman, in some instances, used the funds to make payments on prior mortgages.

This fraud scheme resulted in over \$2.4 million in loss, including losses to the Enterprises.

Entrepreneur Pleaded Guilty in COVID Relief Fraud Scheme Where Proceeds Were Used on Lavish Purchases, Including a Lamborghini, Texas

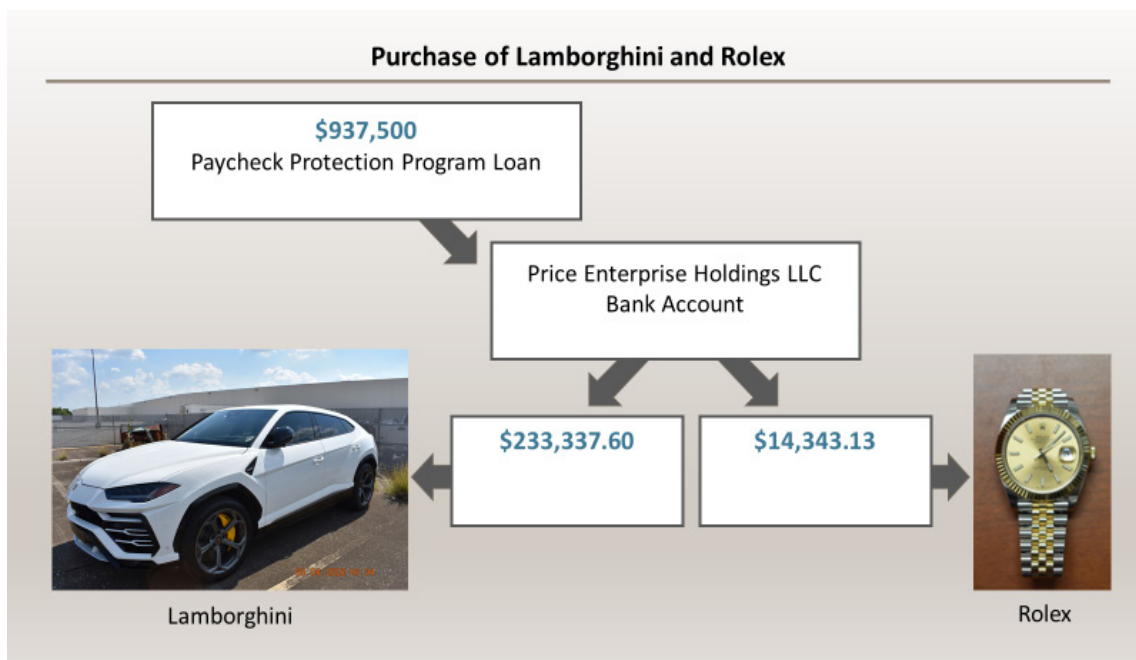
On September 20, 2021, Lee Price III pleaded guilty to wire fraud and money laundering in the Southern District of Texas for his role in fraudulently obtaining more than \$1.6 million in PPP loans.

According to court documents, Price submitted two fraudulent PPP loan applications to two different lenders on behalf of entities 713 Construction LLC and Price Enterprises Holdings LLC. The 713 Construction LLC PPP loan application was made in the name of an individual who died shortly before the application was submitted. Through these two PPP loan applications, Price sought and obtained over \$1.6 million in PPP loan funds.

As indicated in an earlier Semiannual Report to Congress, Price falsely represented the number of employees and payroll expenses in each of the PPP loan applications. To support the fraudulent PPP applications, Price also submitted fabricated tax records and other materials. After receipt of the PPP funds, Price spent the money on a Lamborghini Urus, a Ford F-350 truck, a Rolex watch, and to pay off a loan on a residential property, among other purchases.

Over \$700,000 of the disbursed PPP funds were seized in this matter; the graphic below illustrates the scheme and seized assets.

Multiple FHLBank member banks were targets of the fraudulent applications.



Wedding Planning Company Owner Sentenced for COVID Relief Fraud, Texas

On September 16, 2021, in the Eastern District of Texas, Fahad Shah was sentenced to 31 months in prison, three years supervised release, and was ordered to pay over \$1.5 million in restitution and forfeiture in connection with filing fraudulent loan applications seeking more than \$3 million in forgivable PPP loans.

Shah pleaded guilty to wire fraud on May 19, 2021.

According to court documents, Shah admitted that he sought over \$3 million in PPP loans from two different lenders. In one application, Shah sought over \$1.7 million in PPP loan proceeds by fraudulently claiming that his company, WBF Weddings by Farah Inc. (WBF), employed 126 individuals with an average monthly payroll of over \$700,000. In the second application, Shah sought over \$1.5 million in PPP loan proceeds by fraudulently claiming that WBF had 126 employees with an average monthly payroll of over \$600,000. Court records revealed WBF had only two employees. Both PPP loan applications included supporting fraudulent federal tax documents.

Shah obtained over \$1.5 million in PPP loan proceeds. Shortly after receiving the PPP funds, Shah used over \$1 million in fraudulently obtained proceeds to pay off his home mortgage, purchase securities through his personal investment account, and buy two Teslas, two Freightliner trucks, and a Mercedes Benz van.

A member bank of FHLBank of Des Moines was a target of one of the fraudulent PPP applications.

Business Owner Pleaded Guilty to Obtaining Approximately \$8.9 Million in COVID Relief Fraud Scheme, Using Some Proceeds for Gambling and Stock Trading Activities, California

On September 14, 2021, in the Central District of California, Andrew Marnell pleaded guilty to bank fraud and money laundering for orchestrating a scheme that used a series of corporations he controlled to fraudulently obtain approximately \$8.9 million in PPP forgivable loans. Marnell then used some of the PPP loan proceeds for gambling excursions to Las Vegas and his stock trading accounts. As indicated in a previous Semiannual Report to Congress, Marnell was charged by indictment with bank fraud on July 28, 2020.

Marnell admitted that he fraudulently obtained seven PPP loans from financial institutions for corporations he controlled that brought him approximately \$8.9 million. Marnell submitted fraudulent loan applications that made numerous false and misleading statements about the companies' business operations and payroll expenses. Often using aliases, Marnell submitted fabricated and altered documents, including false federal tax filings and employee payroll records.

According to court documents, once the PPP loans were funded, Marnell transferred millions of dollars from the fraudulently obtained loan proceeds to his brokerage accounts to make risky stock market bets and spent hundreds of thousands of dollars of those proceeds at various gambling establishments.

As part of the plea agreement, Marnell agreed to forfeit more than \$1.5 million seized from brokerage accounts, \$319,298 in cash recovered from his residence, numerous electronic devices, a Rolex Oyster watch, a Range Rover, and a Ducati motorcycle.

Multiple FHLBank member banks were targets of the fraudulent PPP loan applications.

Tech Executive Sentenced for COVID Relief Fraud Scheme, Washington

On August 24, 2021, Mukund Mohan was sentenced to two years in prison, three years supervised release, and was ordered to pay a \$100,000 fine and over \$1.7 million in restitution and forfeiture in the Western District of Washington for perpetrating a scheme to fraudulently obtain PPP loans.

Mohan previously pleaded guilty to wire fraud and money laundering.

According to court documents, Mohan submitted eight fraudulent PPP loan applications seeking over \$5.5 million. In support of the fraudulent loan applications, Mohan submitted fictitious documents, including fabricated federal tax filings and altered incorporation documents. Five of the eight fraudulent loan applications were approved, and Mohan obtained over \$1.7 million in relief funds.

As indicated in a previous Semiannual Report to Congress, Mohan misrepresented to a lender that, in 2019, his company Mahenjo Inc. had dozens of employees and paid millions of dollars in

employee wages and payroll taxes. In support of Mahenjo's loan application, Mohan submitted false incorporation documents and tax forms suggesting the company had been in business prior to 2020. In fact, Mohan purchased Mahenjo on the Internet in May 2020 with no employees and no business activity. Altered incorporation documents and false federal tax filings were submitted to the lender in support of this application.

Member banks of the FHLBank of San Francisco were targets of some of the fraudulent applications.

Funeral Director Sentenced in Connection with COVID Relief Fraud, Texas

On August 2, 2021, in the Southern District of Texas, Jase Gautreaux was sentenced to 70 months in prison and three years of supervised release for his role in fraudulently seeking over \$13 million in PPP loans.

After the reporting of this scheme in a preceding Semiannual Report to Congress, Gautreaux pleaded guilty to engaging in unlawful monetary transactions.

Court records revealed Gautreaux submitted a material fraudulent PPP loan application on behalf of ENI Marketing, Inc., with which he had no affiliation. ENI forfeited the right to do business in Texas in 1999. ENI had no employees and payroll expenses. Gautreaux falsified his identity, misrepresented the number of employees and payroll expenses of ENI, and submitted falsified tax documents and bank account information in support of this application. This submission resulted in Gautreaux receiving over \$1.6 million in PPP funds. Some of the criminally derived proceeds were used to purchase two Cadillac vehicles.

In addition to the ENI application, according to the original criminal complaint, Gautreaux purportedly submitted several fraudulent PPP loan applications to federally insured banks. In these applications, Gautreaux consistently falsified his identity, misrepresented the number of employees and payroll expenses of the supposed companies, and made numerous other inaccurate statements. Gautreaux also submitted falsified tax documents and bank account information in support of these applications. He allegedly submitted fraudulent applications for over \$13 million in PPP funds.

A member bank of the FHLBank of Des Moines was a target of one of the alleged fraudulent applications for a PPP forgivable loan.

Conspirators Found Guilty in Large Scale COVID Relief Fraud Scheme and Two Become Fugitives, California

On June 25, 2021, a federal jury convicted four conspirators for a scheme, involving eight participants, where more than 150 fraudulent loan applications were submitted seeking nearly \$22 million in COVID relief funds through the PPP and Economic Injury Disaster Relief Program (EIDL) under the Coronavirus Aid, Relief, and Economic Security Act.

After an eight-day trial, the listed conspirators were found guilty of the following charges:

- Richard Ayvazyan – conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and aggravated identity theft.
- Marietta Terabelian - conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, and conspiracy to commit money laundering.
- Artur Ayvazyan - conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and aggravated identity theft.
- Vahe Dadyan - conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and money laundering.

Shortly after their convictions, while awaiting sentencing, Richard Ayvazyan and Marietta Terabelian removed their monitoring devices, absconded, and are now considered fugitives.

According to the evidence presented at trial, the defendants used fictitious, stolen, or synthetic identities to submit fraudulent applications for PPP and EIDL loans. In support of these applications, the defendants also submitted false and fictitious documents to lenders and the SBA, including fabricated identity documents, tax documents, and payroll records.

The conspirators obtained more than \$18 million in COVID relief funds. The defendants then used the fraudulently obtained loan proceeds for down payments on luxury homes. They also used the illicit funds to buy gold coins, diamonds, jewelry, luxury watches, fine imported furnishings, designer handbags, clothing, and a Harley-Davidson motorcycle.

Prior to the guilty verdict, earlier in June 2021, the other four scheme participants pleaded guilty to criminal charges in this case:

- Tamara Dadyan pleaded guilty to conspiracy to commit wire fraud and bank fraud, aggravated identity theft, and conspiracy to commit money laundering.
- Manuk Grigoryan pleaded guilty to bank fraud and aggravated identity theft.
- Edvard Paronyan pleaded guilty to wire fraud.
- Arman Hayrapetyan pleaded guilty to conspiracy to commit money laundering.

On September 27, 2021, Paronyan was sentenced to 30 months in prison, three years supervised release, and ordered to pay \$430,177 in restitution.

Member banks of FHLBanks were targets of the fraudulent applications.

Criminal Investigative Results

Below are individuals sentenced, convicted, and charged during the reporting period, grouped by fraud category.

Loan Modification Schemes

Business Owner Sentenced to Over 12 Years in Prison in Real Estate Fraud Scheme			
Defendant	Role	Most Recent Action	District
Patrick Soria	Business Owner	Sentenced to 152 months in prison and three years supervised release.	Central District of California

Five Pleaded Guilty and Seven Sentenced in Foreclosure Rescue Scheme			
Defendant	Role	Most Recent Action	District
Ana Toro	Participant	Sentenced to 18 months in jail, 34 months supervised release, and ordered to pay \$587,144 in restitution, joint and several.	California Attorney General's Office
Gladys Velasquez	Participant	Sentenced to six months of home confinement and three years of probation.	California Attorney General's Office
Emmanuel Lopez	Participant	Sentenced to 364 days in jail, two years of probation, and ordered to pay \$5,873 in restitution, joint and several.	California Attorney General's Office
Eduardo Toro	Participant	Pleaded guilty to grand theft of real property, grand theft from an elder or dependent adult, and identity theft and was sentenced to 88 months in prison and ordered to pay \$587,144 in restitution, joint and several.	California Attorney General's Office
Filiverto Gomez	Participant	Pleaded guilty to grand theft of real property and grand theft of personal property and was sentenced to 210 days in jail, two years of probation, and ordered to pay \$11,191 in restitution, joint and several.	California Attorney General's Office

Veronica Romero	Participant	Pleaded guilty to grand theft from an elder and grand theft of real property and was sentenced to two years in jail, one year of supervised release, and ordered to pay \$11,191 in restitution, joint and several.	California Attorney General's Office
Maria Gil	Participant	Pleaded guilty to grand theft of real property and was sentenced to 180 days of home confinement, two years of probation, and ordered to pay \$11,191 in restitution, joint and several.	California Attorney General's Office
Veronica Toro	Participant	Pleaded guilty to grand theft of real property, grand theft from an elder or dependent adult, and identity theft.	California Attorney General's Office

Guilty Pleas and Charges in Multimillion Dollar Loan Fraud Scheme

Defendant	Role	Most Recent Action	District
Estephania Reynoso	Participant	Pleaded guilty to identity theft, money laundering, procuring or offering a false or forged instrument, and forgery relating to identity theft.	California Attorney General's Office
Rosa Zarate	Participant	Pleaded guilty to identity theft, money laundering, procuring or offering a false or forged instrument, and forgery relating to identity theft.	California Attorney General's Office
Tamara Dadyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, unlawful transfer of identifying information, procuring or offering a false or forged instrument, money laundering, forgery relating to identity theft, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office

Richard Ayvazyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, unlawful transfer of identifying information, procuring or offering a false or forged instrument, money laundering, forgery relating to identity theft, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Artur Ayvazyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, unlawful transfer of identifying information, procuring or offering a false or forged instrument, money laundering, forgery relating to identity theft, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Grigor Tatoian	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, unlawful transfer of identifying information, procuring or offering a false or forged instrument, money laundering, forgery relating to identity theft, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Andranik Petrosyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, unlawful transfer of identifying information, forgery relating to identity theft, procuring or offering a false or forged instrument, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office

Artashes Martirosyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, unlawful transfer of identifying information, procuring or offering a false or forged instrument, forgery relating to identity theft, money laundering, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Arshak Bartoumian	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, unlawful transfer of identifying information, forgery relating to identity theft, procuring or offering a false or forged instrument, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Lilit Malyan	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, unlawful transfer of identifying information, money laundering, forgery relating to identity theft, procuring or offering a false or forged instrument, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office

Lubia Carrillo	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, unlawful transfer of identifying information, money laundering, mortgage fraud, forgery relating to identity theft, procuring or offering a false or forged instrument, mortgage fraud exceeding \$950: filing a fraudulent document, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office
Vanessa Bell	Participant	Charged by indictment with conspiracy to commit grand theft, grand theft, unlawful transfer of identifying information, money laundering, forgery relating to identity theft, procuring or offering a false or forged instrument, mortgage fraud, mortgage fraud exceeding \$950: filing a fraudulent document, aggravated white-collar crime in excess of \$500,000, and theft of an amount over \$100,000.	California Attorney General's Office

Eight Charged in Advance Fee Loan Modification Scheme

Defendant	Role	Most Recent Action	District
Adil Khan	Participant	Charged by state felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Payom Ilkhanipour	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Maria De La Paz	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office

Natalie Nava	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Alejandra Orozco	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Ryan Pelzer	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Amir Khoshnevis	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office
Aaron Pierson	Participant	Charged by state superseding felony complaint with violations including grand theft, conspiracy, and money laundering.	Orange County, CA District Attorney's Office

Short Sale Schemes

Sentencing in Short Sale Fraud Scheme			
Defendant	Role	Most Recent Action	District
Marianne Keim	Recruiter	Sentenced to three years of probation and ordered to pay \$139,243 in restitution, joint and several, and \$118,008 in forfeiture.	Middle District of Florida

Sentencing of Licensed Real Estate Agent Short Sale Participant			
Defendant	Role	Most Recent Action	District
Juliette Leeseman	Real Estate Agent	Sentenced to 60 days in prison, five years supervised release, and ordered to pay \$121,452 in restitution and forfeiture.	Middle District of Florida

Title Company Manager Charged in Short Sale Fraud Scheme			
Defendant	Role	Most Recent Action	District
Barry Bendetowies	Title Company Manager	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	Southern District of Florida

Real Estate Broker Sentenced in Short Sale Fraud Scheme			
Defendant	Role	Most Recent Action	District
Steve Kang	Real Estate Broker/Agent	Sentenced to 18 months in prison, three years supervised release, and ordered to pay \$2,383,284 in restitution, joint and several, and \$835,248 in forfeiture.	District of New Jersey

Guilty Plea in Short Sale Fraud Scheme			
Defendant	Role	Most Recent Action	District
Christopher Baker	Participant	Pled guilty to conspiracy to commit bank fraud.	District of New Jersey

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

Six Sentenced, One Guilty Plea, and Four Charged in Bank Account Takeover Scheme			
Defendant	Role	Most Recent Action	District
Kristen Schofield	Participant	Sentenced to time served, three years supervised release, and ordered to pay \$13,562 in restitution.	Middle District of Florida

Daniel Soto	Participant	Sentenced to 51 months in prison, 24 months supervised release, and ordered to pay \$72,321 in restitution and forfeiture.	Middle District of Florida
Veronica Ramos	Participant	Sentenced to time served, three years supervised release, and ordered to pay \$4,900 in restitution and forfeiture.	Middle District of Florida
Ariel Martinez	Participant	Sentenced to 33 months in prison, 36 months supervised release, and ordered to pay \$11,229 in restitution, joint and several, and \$28,820 in forfeiture.	Middle District of Florida
Diamond Hamilton	Participant	Sentenced to 24 months and one day in prison, 36 months supervised release, ordered to pay \$4,500 in restitution, and \$2,500 in forfeiture.	Middle District of Florida
Aleaha Fastrum	Participant	Sentenced to time served, three years supervised release, and ordered to pay \$9,694 in restitution and forfeiture.	Middle District of Florida
Mercedes Lopez	Participant	Pleaded guilty to conspiracy to commit bank fraud.	Middle District of Florida
Jasmine Townsend	Participant	Charged by indictment with conspiracy to commit bank fraud.	Middle District of Florida
DeQuan Young	Participant	Charged by indictment with bank fraud and aggravated identity theft.	Middle District of Florida
Jamine Jordan	Participant	Charged by superseding indictment with conspiracy to commit bank fraud and aggravated identity theft.	Middle District of Florida
Rosson Hamilton	Participant	Charged by indictment with bank fraud and aggravated identity theft (unsealed during reporting period).	Middle District of Florida

Business Owner Sentenced for Role in Multiple Loan Fraud Schemes			
Defendant	Role	Most Recent Action	District
Mehul Khatiwala	Business Owner	Sentenced to 63 months in prison, four years supervised release, and ordered to pay \$3,593,801 in restitution and forfeiture.	District of Maryland

Over \$46 Million in Forfeiture Ordered in \$396 Million Ponzi Scheme			
Defendant	Role	Most Recent Action	District
Jay Ledford	Participant	Ordered to pay \$46,075,596 by forfeiture money judgment.	District of Maryland

Business Owner Admitted Role in Bank Fraud Scheme			
Defendant	Role	Most Recent Action	District
John Linthicum	Business Owner	Pleaded guilty to conspiracy to commit bank fraud.	Northern District of Oklahoma

Guilty Plea by Former President of First Mortgage Company			
Defendant	Role	Most Recent Action	District
Ronald McCord	Former President	Pleaded guilty to bank fraud, money laundering, and making a false statement to a financial institution.	Western District of Oklahoma

Real Estate Broker Charged for Defrauding the FHLBank Affordable Housing Program			
Defendant	Role	Most Recent Action	District
Karl Zerbst Jr.	Real Estate Broker	Charged by information with conspiracy to commit wire fraud and false statements to a FHLBank.	District of South Carolina

Attorney Charged in Connection with Funds Received from Failed Chicago Bank			
Defendant	Role	Most Recent Action	District
Patrick Thompson	Attorney	Charged by indictment with making false statements to the FDIC and filing a false income tax return.	Northern District of Illinois

Multifamily Schemes

Business Owner Found Guilty in Multifamily Loan Fraud			
Defendant	Role	Most Recent Action	District
Kapal Sharma	Business Owner	Convicted at trial of bank fraud and making false statements to a financial institution.	Western District of Oklahoma

Business Owner Pleaded Guilty in Multifamily Fraud Scheme			
Defendant	Role	Most Recent Action	District
Victor Torres	Business Owner	Charged by information and pleaded guilty to bank fraud and false records in a bankruptcy proceeding.	Western District of Tennessee

Insurance Broker Charged in Multifamily Insurance Fraud Scheme			
Defendant	Role	Most Recent Action	District
Robert Wells	Insurance Broker	Charged by indictment with wire fraud and aggravated identity theft.	Eastern District of California

Loan Origination Schemes

Sentencings in Multi-Year Mortgage Fraud Scheme			
Defendant	Role	Most Recent Action	District
Paige McDaniel	Employment Verifier	Sentenced to three years of probation, including 180 days of home confinement, and ordered to pay \$85,607 in restitution, joint and several.	Northern District of Georgia
Anthony Richard	Real Estate Agency Owner	Sentenced to three years of probation, including 12 months of home confinement, and ordered to pay \$361,103, joint and several.	Northern District of Georgia
Fawziyyah Connor	Document Fabricator	Sentenced to three years of probation, including 12 months of home confinement, and ordered to pay \$330,664 in restitution, joint and several.	Northern District of Georgia
Jerod Little	Employment Verifier	Sentenced to three years of probation, including 240 days of home confinement, and ordered to pay \$137,707 in restitution, joint and several.	Northern District of Georgia
Renee Little	Employment Verifier	Sentenced to three years of probation, including 240 days of home confinement, and ordered to pay \$137,707 in restitution, joint and several.	Northern District of Georgia
Stephanie Hogan	Document Fabricator	Sentenced to three years of probation, including one year of home confinement, and ordered to pay \$444,608 in restitution, joint and several.	Northern District of Georgia

Sentencings in \$9 Million Mortgage Fraud Scheme			
Defendant	Role	Most Recent Action	District
Yorce Yotagri	Participant	Sentenced to 12 months and one day in prison, three years supervised release, and ordered to pay \$580,048 in restitution.	District of New Jersey
Simon Curanaj	Participant	Sentenced to 24 months in prison, five years supervised release, and ordered to pay \$2,114,776 in restitution, joint and several.	District of New Jersey
Joseph Gonzalez	Participant	Sentenced to 18 months in prison, three years supervised release, and ordered to pay \$512,500 in restitution, joint and several.	District of New Jersey

Sentencing in Mortgage Fraud Scheme			
Defendant	Role	Most Recent Action	District
Dennys Tapia	Participant	Sentenced to 15 months in prison, two years supervised release, and ordered to pay \$182,508 in restitution, joint and several, and \$176,532 in forfeiture.	District of New Jersey

Sentencing in Multimillion-Dollar Loan Origination Fraud Scheme			
Defendant	Role	Most Recent Action	District
Robert Goodrich	Participant	Sentenced to 27 months in prison, five years supervised release, and ordered to pay \$981,554 in restitution, joint and several.	District of New Jersey

Two Pleaded Guilty for Targeting Elderly on Reverse Mortgage Loan Origination Fraud			
Defendant	Role	Most Recent Action	District
Rafael Peralta	Business Owner	Pleaded guilty to conspiracy to commit bank fraud.	District of New Jersey
Philip Puccio Jr.	Loan Officer/ Business Owner	Pleaded guilty to conspiracy to commit bank fraud.	District of New Jersey

Unlicensed Mortgage Broker Pleaded Guilty in Loan Origination Scheme			
Defendant	Role	Most Recent Action	District
Brent Kaufman	Participant	Pleaded guilty to bank fraud.	Eastern District of New York

Two Conspirators Charged in Loan Origination Scheme			
Defendant	Role	Most Recent Action	District
Alex Dadourian	Mortgage Broker	Charged by state felony complaint with conspiracy to commit grand theft, identity theft, grand theft, and mortgage fraud.	California Attorney General's Office
Vartan Pirlant	Document Preparer	Charged by state felony complaint with conspiracy to commit grand theft, identity theft, grand theft, and mortgage fraud.	California Attorney General's Office

Fraud Affecting the FHLBanks, or FHLBank Member Institutions as a Result of (or Related to) the CARES Act PPP

Wedding Planning Company Owner Sentenced for COVID Relief Fraud			
Defendant	Role	Most Recent Action	District
Fahad Shah	Wedding Planning Company Owner	Sentenced to 31 months in prison, three years supervised release, and ordered to pay \$1,592,657 in restitution and forfeiture.	Eastern District of Texas

Engineer Sentenced for \$13 Million COVID Relief Fraud Scheme			
Defendant	Role	Most Recent Action	District
Shashank Rai	Engineer	Sentenced to 24 months in prison and two years supervised release.	Eastern District of Texas

Funeral Director Sentenced in Connection with COVID Relief Fraud			
Defendant	Role	Most Recent Action	District
Jase Gautreaux	Funeral Director	Sentenced to 70 months in prison and three years supervised release.	Southern District of Texas

Entrepreneur Pleaded Guilty in COVID Relief Fraud Scheme Where Proceeds Were Used on Lavish Purchases, Including a Lamborghini			
Defendant	Role	Most Recent Action	District
Lee Price III	Entrepreneur	Pleaded guilty to wire fraud and money laundering.	Southern District of Texas

Business Owner Pleaded Guilty in COVID Relief Loan Scheme			
Defendant	Role	Most Recent Action	District
Joshua Argires	Business Owner	Pleaded guilty to engaging in unlawful monetary transactions.	Southern District of Texas

Tech Executive Sentenced for COVID Relief Fraud Scheme			
Defendant	Role	Most Recent Action	District
Mukund Mohan	Business Owner	Sentenced to two years in prison, three years supervised release, and ordered to pay \$1,786,357 in restitution and \$1,770,055 in forfeiture.	Western District of Washington

Business Owner Pleaded Guilty to Obtaining Approximately \$8.9 Million in COVID Relief Fraud Scheme, Using Some Proceeds for Gambling and Stock Trading Activities

Defendant	Role	Most Recent Action	District
Andrew Marnell	Business Owner	Pleaded guilty to bank fraud and money laundering.	Central District of California

Four Conspirators Found Guilty, Three Pleaded Guilty, and One Sentenced in Large Scale COVID Relief Fraud Scheme

Defendant	Role	Most Recent Action	District
Edvard Paronyan	Participant	Sentenced to 30 months in prison, three years supervised release, and ordered to pay \$430,177 in restitution.	Central District of California
Richard Ayvazyan	Participant	Convicted at trial of conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and aggravated identity theft.	Central District of California
Marietta Terabelian	Participant	Convicted at trial of conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, and conspiracy to commit money laundering.	Central District of California
Artur Ayvazyan	Participant	Convicted at trial of conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and aggravated identity theft.	Central District of California
Vahe Dadyan	Participant	Convicted at trial of conspiracy to commit bank fraud and wire fraud, wire fraud, bank fraud, conspiracy to commit money laundering, and money laundering.	Central District of California
Arman Hayrapetyan	Participant	Pleaded guilty to conspiracy to commit money laundering.	Central District of California

Tamara Dadyan	Participant	Pleaded guilty to conspiracy to commit wire fraud and bank fraud, aggravated identity theft, and conspiracy to commit money laundering.	Central District of California
Manuk Grigoryan	Participant	Pleaded guilty to bank fraud and aggravated identity theft.	Central District of California

Business Owner Pleaded Guilty in Connection with Obtaining Over \$6 Million in COVID Relief Fraud Scheme

Defendant	Role	Most Recent Action	District
Hunter VanPelt	Business Owner	Pleaded guilty to bank fraud.	Northern District of Georgia

Business Owner Charged for Fraudulently Obtaining Nearly \$1 Million in COVID Relief Funds

Defendant	Role	Most Recent Action	District
Devron Brown	Business Owner	Charged by indictment with bank fraud and money laundering.	Eastern District of Pennsylvania

Business Owner Charged for Fraudulently Obtaining Over \$1 Million in COVID Relief Funds

Defendant	Role	Most Recent Action	District
Nivah Garcis	Business Owner	Charged by federal criminal complaint with bank fraud and money laundering.	District of New Jersey

Business Owner Charged in \$3.8 Million COVID Relief Fraud Scheme

Defendant	Role	Most Recent Action	District
Gregory Blotnick	Business Owner	Charged by federal criminal complaint with wire fraud and money laundering.	District of New Jersey

OIG Summary of Investigative Statistics, Including Matters Referred to Prosecutive Authorities, for the Period April 1, 2021, through September 30, 2021

Reports, Referrals to Federal, State, and Local Prosecuting Authorities, Prosecutions and Convictions, April 1, 2021, - September 30, 2021*	
Investigative Reports**	27
Criminal Referrals to the Department of Justice (DOJ)	38
Criminal Referrals to State and Local Prosecuting Authorities	7
Indictments and Informations during the Reporting Period that Resulted from Referrals to Prosecutors during Prior Reporting Periods	41
Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals	51
Trials	2
Defendants Tried	5
Convictions / Pleas	39
Sentencings	37

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

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

Investigative Outcomes to Date

Investigative Results from October 1, 2010, through September 30, 2021	
Criminal Convictions resulting from OIG investigations (excluding convictions resulting in a pre-trial diversion program)	857
Criminal Sentences: Years of Confinement	Over 1,911
Criminal Orders of Restitution, Forfeitures, Seizures, Fines, and Special Assessments	\$5.45 billion
Civil Recoveries resulting from OIG investigations: Settlements, Fines, and Penalties	\$66.69 billion

Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation

Pursuant to the IG Act, Sections 5(a)(19), (20), (22)(B), and 5(e), OIG is required to report certain information regarding (1) investigations involving senior government employees (SGEs) and (2) government officials found to have engaged in whistleblower retaliation. In this section, OIG also reports on the results of hotline complaints and administrative inquiries involving the above.

Sections 5(a)(19) and 5(e)(1) of the IG Act require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation it conducted involving an SGE when allegations of misconduct were substantiated. OIG has no reportable information for this period.

Sections 5(a)(20) and 5(e)(1) of the IG Act 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, including information about an official found to have engaged in retaliation. OIG does not have any reportable information for this period.

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

During this reporting period, OIG completed an administrative inquiry into an anonymous complaint alleging that an FHFA SGE had pressured Human Resources to hire a relative as an intern; that a former FHFA SGE improperly took a position with a regulated entity, creating a conflict of interest; and that a current FHFA SGE was improperly promoted. OIG did not find evidence sufficient to support the allegations and the complaint was closed.

In addition, during this reporting period, OIG completed an administrative inquiry into an anonymous complaint alleging that a recently promoted FHFA SGE may have falsified credentials and was unqualified for the promotion. OIG did not find evidence to support the allegations and the matter was closed.

During this reporting period, OIG also completed an administrative inquiry into an allegation that an FHFA SGE had anger management issues and had berated and ridiculed staff. OIG did not find evidence sufficient to support the allegations and the matter was closed.

Closed, Undisclosed Audits and Evaluations

Pursuant to Section 5(a)(22)(A) of the IG Act, OIG must report on evaluations and audits that were closed and not disclosed to the public. During this reporting period, OIG did not close any evaluation or audit without disclosing the existence of the report to the public. OIG issued reports during this period that contained information that is privileged, confidential, or could be

used to circumvent FHFA’s or OIG’s internal controls, and, accordingly, OIG has not publicly disclosed such contents. We have provided unredacted reports to FHFA and to our Congressional oversight committees.

Peer Reviews

OIG Peer Review Results

Peer Review Results	Date Reported
Office of Audits: The most recent peer review was conducted by the Library of Congress OIG. OIG received an external peer review rating of pass, the highest rating an audit organization can receive.	September 11, 2019
Office of Evaluations and Office of Compliance & Special Projects: The most recent peer review was conducted by a CIGIE external peer review team led by the U.S. Department of Housing and Urban Development (HUD) OIG. The review team recognized several of our practices as “best practices.” The team also determined that our policies and procedures met the seven standards addressed in that review: quality control, planning, data collection and analysis, evidence, records maintenance, reporting, and follow-up. The team concluded that the six reports it tested met the standards, but one evaluation report did not comply with internal policies and procedures for planning.	September 10, 2019
Office of Investigations: The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission (NRC) OIG. NRC-OIG issued an Opinion Letter and a Letter of Observations detailing the results of its review. In the Opinion Letter, NRC-OIG reported that OIG’s system of internal safeguards and management procedures for our investigative function is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. In the Letter of Observations, NRC-OIG recognized OIG for employing five “best practices” in its investigative operations.	July 12, 2017

Outstanding Recommendations from Any Peer Review of OIG

OIG has no outstanding recommendations from any peer reviews.

Peer Reviews Conducted by OIG and Outstanding Recommendations

OIG did not conduct any peer reviews during this period and there are no outstanding recommendations from peer reviews conducted by OIG.

Outreach

Public and Private Partnerships, Outreach, and Communications

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 address fraud and coordinate oversight activities.

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 on OIG work to congressional staff.

Hotline

The OIG hotline serves as a vehicle through which employees of the Agency, the Enterprises, the FHLBanks, and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. Potential criminal violations are investigated by OI, and civil or administrative matters are referred to the appropriate senior career executive in an OIG operating division for review. During this reporting period, 766 discrete contacts to the hotline were made, involving tips, complaints, and referrals. This included 129 separate complaints logged by the hotline.

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

Close Coordination with Other Oversight Organizations

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

Council of the Inspectors General on Integrity and Efficiency (CIGIE)

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

Council of Inspectors General on Financial Oversight (CIGFO)

CIGFO was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to oversee FSOC, which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system.

The FHFA IG is a statutory member of CIGFO, along with the IGs of the Department of the Treasury, Federal Deposit Insurance Corporation (FDIC), the Securities and Exchange Commission, and others. By statute, CIGFO may convene working groups to evaluate the effectiveness and internal operations of FSOC.

Additionally, in accordance with the Act, CIGFO issues an annual report to FSOC and to Congress that includes (1) a section by each member IG that highlights the concerns and recommendations of the IG based on ongoing and completed work, with a focus on issues that may apply to the broader financial sector; and (2) a summary of the general observations by the Council with a focus on measures that should be taken to improve financial oversight.

CIGFO's annual report for 2021, issued in July 2021, is available on its [website](#) and [Oversight.gov](#).

Law Enforcement Outreach

Federal Bureau of Investigation (FBI) Cybercrimes Task Force

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

Public Awareness of OIG’s Law Enforcement Mission

During this reporting period, OIG delivered 23 fraud awareness briefings to diverse audiences to raise awareness of its law enforcement mission and fraud schemes targeting FHFA programs.

Public-Private Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak with officials at the Enterprises and the FHLBanks regularly to benefit from their insights. We also make presentations to academic and industry groups. Recent presentations include: the US Trustee’s Employees’ Bankruptcy Fraud Case Study Seminar (National); the Palm Beach County Economic Crimes/Intelligence Working Group (FL); the Real Estate Fraud Task Force (CA); the Illinois Fraud Working Group; Palm Beach Economic Crimes Task Force (FL); the North Dakota Department of Financial Institutions; the Palm Beach County Elder Abuse Task Force (FL); the CARES Act Fraud Working Group (IL); and the Paycheck Protection Program Task Force (NY).

Coordination Among Law Enforcement Agencies

OIG has developed ongoing and close working relationships with other law enforcement agencies, including: DOJ and U.S. Attorneys’ offices; FBI; HUD-OIG; FDIC-OIG; Internal Revenue Service–Criminal Investigation; SBA-OIG; the U.S. Trustee Program (nationwide); Financial Crimes Enforcement Network (FinCEN); state attorneys general; and other federal, state, and local law enforcement agencies nationwide.

Other Inspector General Act Reporting Requirements

FHFA’s Refusal to Provide Information

OIG does not have any reportable information for this period.

Attempts to Interfere with OIG Independence

OIG does not have any reportable information for this period.

Federal Financial Management Improvement Act of 1996

For the six-month reporting period ended September 30, 2021, Section 5(a)(13) of the IG Act did not apply to the Agency or OIG.

Review of Legislation and Regulations

OIG, through its Office of Counsel, stays up-to-date on all applicable proposed legislation that is publicly available or disseminated by the CIGIE Legislation Committee. When appropriate, OIG comments on enacted law or proposed legislative matters relating to FHFA's programs and activities. OIG's Office of Counsel also reviews all proposed regulations pertaining to FHFA, and provides comments when deemed appropriate.

Index of Information Required by the Inspector General Act

The IG Act 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 is a table directing the reader to the pages of this report on which various information required by the IG Act is provided.

Source/Requirement	Pages
Section 4(a)(2) – Review of legislation and regulations.	73
Section 5(a)(1) – A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.	6-16
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	8-16
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	18-39
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	40-67
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.	72
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.	8-17
Section 5(a)(7) – A summary of each particularly significant report.	8-16
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, 17

Source/Requirement	Pages
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, 17
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.	18
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.	18
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.	18-39
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	18
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	18
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	72
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.	69
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	69
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	70
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.	67

Source/Requirement	Pages
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	67
Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including the name of the official if already made public by OIG, a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	68
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.	68
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.	72
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.	68-69
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.	68



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2021, through September 30, 2021

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