



## OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street, S.W., Washington DC 20024

**TO:** Jeffrey Spohn,  
Senior Associate Director, Office of Conservatorship Operations

*George Grob*

**FROM:** George Grob,  
Deputy Inspector General for Evaluations

**SUBJECT:** Evaluation Survey Report 2012-004  
Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers  
Association Convention and Exposition

**DATE:** March 22, 2012

The purpose of this memorandum is to report the results of FHFA-OIG's survey of FHFA's oversight of Fannie Mae's and Freddie Mac's business and travel-related expenses associated with their participation in the 2011 Mortgage Bankers Association Convention and Exposition (the Convention).

Collectively, Fannie Mae and Freddie Mac (collectively, the Enterprises) spent over \$600,000 in order to participate in the Convention. Although this sum represents a modest portion of the Enterprises' annual expenditures, the topic has attracted considerable attention. In light of ongoing concern over the Enterprises' expenditures, FHFA-OIG initiated this survey to review the Agency's oversight of the Enterprises' travel-related expenses. The details of FHFA-OIG's analysis can be found in the Attachment.

## **Findings**

In summary, FHFA-OIG found:

- The Enterprises' registration and travel-related expenses (*e.g.*, airfare, hotel, and *per diem*) of \$256,458, when viewed on a *per capita* basis, were comparable to those that would have been allowable for federal employees;
- However, other expenses were open to question, including:
  - \$140,000 for sponsorships of the Convention; and
  - \$140,415 for business meals and hosted dinners.

Thus, of over \$600,000 expended by the Enterprises on the Convention, \$280,415, or almost one half, was of questionable value.

## **New FHFA Directive and Guidance**

Prior to FHFA-OIG's completion of the field work for this survey, the FHFA Acting Director issued a letter directing the Enterprises that payments for conference sponsorships should no longer be allowed, and that expenditures on food at business meetings should be stopped to the extent they still exist. On January 25, 2012, the Acting Director issued additional guidance to the Enterprises regarding the implementation of the previously announced controls on conference sponsorships and expenditures for food. In light of the new directive, FHFA-OIG has concluded that there is no need to conduct additional evaluative work in this area. However, FHFA-OIG will monitor FHFA's implementation of the directive and the recommendation made herein.

## **Recommendations**

FHFA-OIG recommends, in accordance with the Agency's January 25 guidance to the Enterprises, that:

1. FHFA should ensure that the Enterprises conduct a comprehensive review of their travel and entertainment policies, and revise them in a manner consistent with the January 25 guidance; and
2. FHFA should review the Enterprises' proposed revisions to ensure that they are drafted in a manner consistent with the guidance provided by FHFA and that the Enterprises have established appropriate controls to monitor compliance.

The details of FHFA-OIG's analysis can be found in the Attachment to this memorandum entitled, "The Enterprises' Participation in the 2011 Mortgage Bankers Association Convention and Exposition." FHFA agreed with FHFA-OIG's recommendations, and its response can be found in its entirety at Appendix A to the Attachment.

This study was conducted by Assistant Inspector General David M. Frost with assistance from Director of Fraud Prevention and Program Management Angela Choy. FHFA-OIG appreciates the cooperation of FHFA and Enterprise staff, as well as the assistance of all those who contributed to the preparation of this report.

Attachment: Evaluation Survey Report 2012-004 – The Enterprises’ Participation in the 2011 Mortgage Bankers Association Convention and Exposition.

cc: Mark Kinsey, Chief Financial Officer  
Bruce Crandlemire, Senior Advisor

**ATTACHMENT**

**Evaluation Survey Report No. 2012-004**

**Fannie Mae's and Freddie Mac's Participation in  
the 2011 Mortgage Bankers Association Annual Convention  
and Exposition**

**Federal Housing Finance Agency  
Office of Inspector General**

**March 22, 2012**

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# **Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Annual Convention and Exposition**

## **Purpose**

The Federal Housing Finance Agency (FHFA or the Agency), Office of Inspector General (FHFA-OIG) conducted a survey to assess FHFA's oversight of business and travel-related expenses associated with the participation of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) in the 2011 Mortgage Bankers Association (MBA) Annual Convention and Exposition (the Convention).

## **Background**

### **I. Introduction**

The MBA held its Convention at the Hyatt Regency, Chicago, from October 9 - 12, 2011. Every year, MBA's conventions attract some 3,000 executives who work in mortgage finance. Attendees typically include senior managers from national and regional lenders, full service mortgage companies, mortgage brokers, mortgage service providers, affordable housing groups, and state and local associations. FHFA personnel have also attended at Agency expense.

FHFA did not approve or review (prior to the event) the Enterprises' participation in the Convention, or their decisions to sponsor it. Both FHFA and the Enterprises viewed the matter as entirely within the authorities delegated by FHFA to Fannie Mae and Freddie Mac.

Collectively, the Enterprises spent over \$600,000 to participate in the Convention. Although this sum represents a relatively small portion of the Enterprises' annual expenditures, it attracted media and congressional attention.<sup>1</sup>

On December 13, 2011, approximately one month after FHFA-OIG announced this survey, FHFA's Acting Director issued a letter to the Enterprises requiring them to scrutinize all general and administrative expenses to ensure that they were consistent with the direction and goals of the conservatorship. The Acting Director's letter made it clear that expenses like those involving meals, complimentary food, and similar items deserve special scrutiny and that, generally, they

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<sup>1</sup> See, e.g., Morgenson, "Fannie and Freddie, Still the Socialites," *New York Times* (Oct. 16, 2011), at p. BU1; Letter from Hon. Randy Neugebauer to FHFA Acting Director Edward J. DeMarco, dated October 13, 2011.

should be stopped. The letter went on to specifically restrict such items as paying for meals to host meetings. The Acting Director did not ban business and travel expenses, but insisted that caution and prudence be exercised. He further stated that sponsorship of conferences would be considered an inappropriate expense without prior approval from FHFA. Finally, the Acting Director promised that the conservator would take a more active role in monitoring the Enterprises' controls and practices surrounding travel and business expenses.

In a subsequent letter, issued on January 25, 2012, the Acting Director required the Enterprises to implement additional guidance. The guidance requires each Enterprise to establish controls, and implement monitoring and reporting mechanisms, to ensure compliance with the December directive.

FHFA-OIG notes that the Acting Director's new directive rendered significant portions of this survey academic. Accordingly, rather than continue with the process, FHFA-OIG concluded the survey based on the work performed to date. The fieldwork and analysis completed by FHFA-OIG on this matter are sufficient to reach the conclusions and recommendations set forth in this report.

The report focuses on the reasonableness of the various costs incurred by the Enterprises for participating in the Convention.<sup>2</sup> The conclusions and recommendations in this report are consistent with, elaborate on, and promote compliance with the Acting Director's directive.

## **II. The Convention**

Combined, 90 Enterprise employees were registered as attendees of the Convention: 48 for Fannie Mae and 42 for Freddie Mac.<sup>3</sup> A review of the promotional materials prepared by MBA and information received from the Agency and the Enterprises makes it apparent that the Convention afforded opportunities for the professional development of participants, as well as opportunities to exchange ideas on significant policies and practices in mortgage banking. The Convention included committee meetings and presentations on technology, mortgage servicing, compliance issues, legal concerns, loan production, and the impact of demographic trends on the mortgage market.

In order to prepare a response to a congressional inquiry concerning the reasons for the Enterprises' participation in the Convention, FHFA solicited explanations from both Fannie Mae

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<sup>2</sup> For purposes of this report, the Enterprises' expenditures on the Convention are considered in the following categories: (1) sponsorship costs; (2) registration and travel costs for employees; (3) on-site expenses, including meeting rooms and food; and (4) hosted dinners for clientele.

<sup>3</sup> FHFA sent seven of its own employees to the Convention. Apart from the seven FHFA employees who attended as registered participants, both the Acting Director of FHFA and the Inspector General of FHFA attended and made presentations at the Convention.

and Freddie Mac. In its reply to FHFA, Freddie Mac stated that the Convention provided the Enterprise's "executives with a cost-effective opportunity to educate, inform and engage with hundreds of mortgage market executives on key issues affecting the housing industry." Freddie Mac noted further:

During the conference [its] executives participated in approximately 200 meetings with their counterparts from the community, regional and national institutions of many of the industry's most critical business issues.

In its memorandum to the Agency, Fannie Mae advised:

The presence of a significant portion of the industry in a single location permits Fannie Mae to use the conference to meet with its customers and counterparties in a single place to address the challenges faced in this market and the work we are doing to provide liquidity to the market, help distressed families and create value for taxpayers. Prior to the conference, Fannie Mae scheduled over 200 meetings with customers to occur during the event, the majority of which were with community banks or small, independent mortgage companies. These scheduled meetings do not include other informal meetings that occur frequently between Fannie Mae employees and lenders at the conference.

In its response to the congressional inquiry, FHFA stated that "attendance and active participation at the MBA Conference by Fannie Mae and Freddie Mac officials satisfies core business needs for each company." It added that decisions by the Enterprises to participate in the Convention were "considered normal operating decisions," and, as such, were within the discretion afforded the Enterprises by FHFA as conservator.

Both Enterprises chose to send additional personnel to Chicago without registering them for the Convention, in order to conduct business meetings with industry executives attending the Convention.

### **III. Costs of the Convention**

The Enterprises' overall Convention expenses exceeded \$600,000. Travel-related costs and registration expenses accounted for slightly more than \$256,000. The Enterprises also spent \$140,000 on Convention sponsorships, \$140,000 on business meals and entertainment costs, and approximately \$70,000 on other costs. These costs are summarized in Figure 1, below.

**Figure 1: Enterprise Convention Costs**

	<b>Registration Costs</b>	<b>Travel Expenses</b>	<b>Sponsorship</b>	<b>Business Meals</b>	<b>Other Expenses</b>	<b>Total</b>
<b>Fannie Mae</b>	\$38,219	\$106,636	\$60,000	\$47,823	\$14,639	\$267,317
<b>Freddie Mac</b>	\$29,820	\$81,783	\$80,000	\$92,592	\$55,989	\$340,184
<b>Total</b>	\$68,039	\$188,419	\$140,000	\$140,415	\$70,628	\$607,501

**Travel and Registration Expenses.** At the inception of the conservatorships of Fannie Mae and Freddie Mac, FHFA reviewed and approved the Enterprises' respective policies pertaining to travel and entertainment expenses. These FHFA-approved policies were in effect at the time of the Convention.

Travel expenses for federal employees, including FHFA personnel, are subject to regulation.<sup>4</sup> However, Enterprise personnel are not considered federal employees and, thus, they are not subject to federal travel regulations nor are they entitled to federal discount rates. Nevertheless, a comparison between the travel costs incurred by the FHFA federal employees attending the Convention and those incurred by Enterprise employees attending it is useful as a rough gauge of the reasonableness of the Enterprises' expenditures, as well as a general assessment of their travel policies. The comparison is particularly significant in light of the use of taxpayer funds to cover losses incurred by the Enterprises.

Registration costs were determined by the management of the Convention. Variations in the per-person registration costs paid by the two Enterprises and the Agency were the result of several factors, including a certain number of free registrations given to sponsors, discounts for early registration and membership, and reduced rates for individuals asked to speak at the Convention.

Total registration costs for the 48 Fannie Mae employees who attended the Convention were \$38,219. Total travel and related expenses for these employees, as well as for another 68 Fannie Mae employees who traveled to Chicago without registering for the Convention (in order to take advantage of the opportunities for meetings and interactions with industry executives) amounted to \$106,636.

For Freddie Mac, registration of 42 employees attending the convention cost \$29,820. Travel and related expenses for these employees, as well as for 16 additional Freddie Mac employees (who did not register for the Convention, but who utilized the opportunity presented by the Convention to conduct business meetings) totaled \$81,783.

The Agency expended \$7,068 registering seven (federal) employees for the Convention. Travel and *per diem* expenses for these seven employees totaled \$8,602.

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<sup>4</sup> See 41 C.F.R. Chapters 300 – 304.

FHFA-OIG reviewed the Enterprises’ travel policies applicable at the time of the Convention, and compared them to the federal government’s travel policies. The policies, although not identical, contain similar requirements and appear to be oriented toward cost savings. Some of the salient provisions of the Enterprises’ respective policies, as well as corresponding federal travel policies, are set forth below in Figure 2.

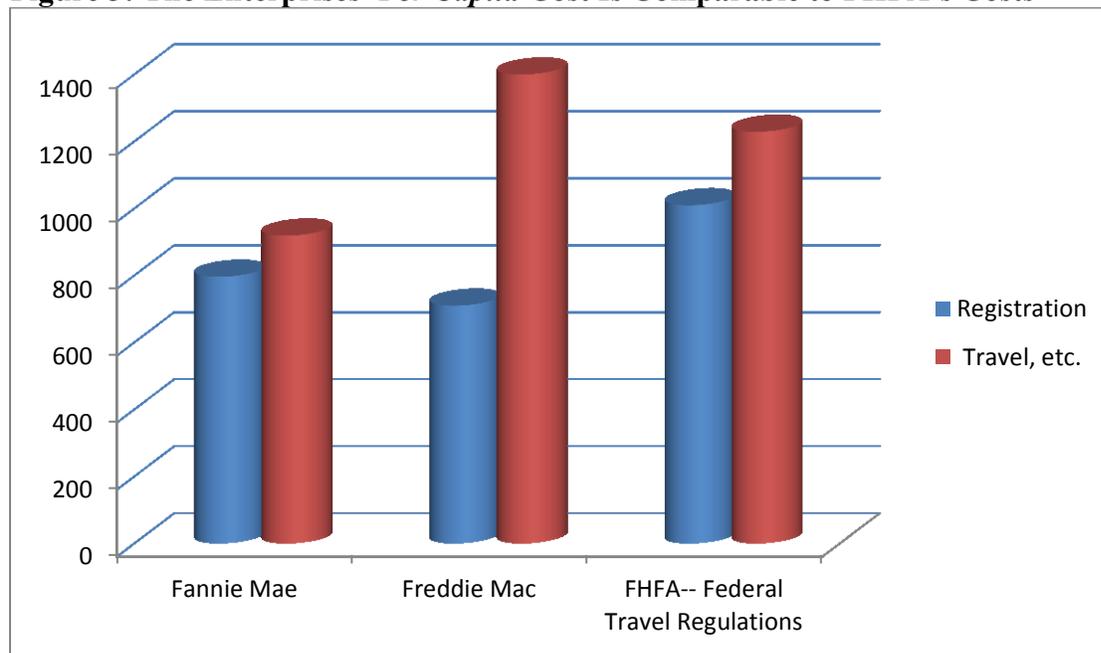
**Figure 2: Enterprise and Federal Government Travel Policies**

	<b>Fannie Mae</b>	<b>Freddie Mac</b>	<b>Federal Government</b>
<b>Air Travel</b>	Must use preferred carriers; consider lowest fare; accept lowest cost booking within a 4 hour window around preferred departure; accept alternate airport within 50 miles or 1 hour to save \$300	Must choose airlines based on cost, regardless of airline or airport preference; arrangements should be made in advance to take advantage of early booking discounts	Must use contract carrier
<b>Air Travel (business or first class)</b>	Must accept most effective coach class—business class allowed only for flights of six or more hours of flight time	Coach or economy class except when flying time is over six hours; senior vice presidents and above may travel in business or first class at their discretion	Coach or economy class required except for flights of over 14 hours, including stopovers, with origin or destination outside the continental U.S.; some security- or health-related exceptions apply
<b>Hotels</b>	Must stay at preferred hotels when possible; standard accommodations; no reimbursement for spa, health clubs, etc.	Stay at preferred hotels whenever possible	Preference given to government lodging agreement programs; standard rate (\$190 for Chicago at the time of the Convention); exceptions where this is unavailable

<b>Daily Meal Allowance (Chicago, Oct. 2011)</b>	\$70	\$65	\$71
<b>Making Travel Arrangements</b>	Must use Fannie Mae online booking tool	Must use Corporate Travel online booking tool or the Freddie Mac travel office	Must use agency's E-Gov travel service
<b>Reimbursement</b>	Expenses must be approved by a director, or above	Managerial approval required; managers to be proactive in controlling travel expenses	Must have written authorization prior to travel
<b>Entertainment</b>	May be provided for a business purpose, but may not exceed \$100 per person without management approval	"No absolute limits" \$65 - \$100 per person is a "reasonable guideline;" prior management approval required	Not authorized
<b>Spousal Travel</b>	Can be authorized for "bona fide business reason"	Travel expenses of immediate family members can be authorized for business reasons	Not authorized

Although both of the Enterprises maintain policies that, like those of the federal government, are oriented toward cost savings (*e.g.*, the use of an internal travel service and specially negotiated rates for carriers or hotels), they allow particular expenses (*e.g.*, spouse or domestic partner travel and entertainment expenses) that would not be permissible under federal travel regulations. Nonetheless, as applied to the Enterprises' travel and registration expenses for the Convention, the Enterprises' policies rendered results comparable to federal travel policies. Figure 3, below, illustrates the approximate per person costs of registration and travel for the Enterprises and FHFA.

**Figure 3: The Enterprises' Per Capita Cost Is Comparable to FHFA's Costs**



As reflected in Figure 3, Fannie Mae spent approximately \$796 per person on registration and \$919 per person on travel. Freddie Mac spent approximately \$710 per person on registration and \$1,410 per person on travel. The Agency spent nearly \$1,010 per person on registration<sup>5</sup> and approximately \$1,229 per person on travel. Regarding per-person travel costs, using the federal travel regulations as a benchmark, FHFA-OIG concluded that the per-person travel costs incurred by the Enterprises were comparable to FHFA's costs. Indeed, Fannie Mae was able to manage travel expenses for a lower per-person cost than the Agency and is to be commended for its diligence in this regard. Moreover, as stated above, both Fannie Mae and Freddie Mac sent employees to Chicago during the MBA Convention without registering them, in order to conduct business meetings with customers who were attending the Convention. FHFA-OIG notes that this reflects positive efforts at cost containment by the Enterprises.

**Convention Sponsorship.** The web site for the Convention lists 24 entities as "sponsors," including both Fannie Mae and Freddie Mac. Sponsorship of the Convention entails the payment of a sum of money in exchange for the receipt of specified levels of recognition and benefits.

<sup>5</sup> The Enterprises' per-person registration costs were lower than the Agency's. This was due, in part, to the free registrations given to sponsors of the Convention. However, both Enterprises also took advantage of early registration discounts. It appears that, in most instances, the Agency did not avail itself of this discount.

At the Convention, Freddie Mac joined three other companies as sponsors at the “Platinum” level.<sup>6</sup> Platinum level sponsorship costs \$80,000. Fannie Mae joined six other companies as sponsors at the “Gold” level, which costs \$60,000.<sup>7</sup> According to the MBA:

Sponsorship of MBA’s 98th Annual Convention & Expo is a highly visible, cost-effective way to place your company’s name before key decision makers in the mortgage banking industry. As the premier event in residential real estate finance, MBA’s Annual Convention & Expo is attended by a cross-section of key industry professionals – all looking for the latest information on business trends, critical issues, new products and services and emerging technology. The various levels of convention sponsorship present excellent opportunities to tailor a visibility program that meets your specific marketing needs while positioning your company as a leader in the industry.

Various benefits were extended to sponsors, depending on their level. For the Enterprises, these benefits included:

- “A banner at the Hyatt Regency Chicago and a high-rotation ad on the convention web site;”
- Six “complimentary sponsor registrations;”
- A full-page display advertisement in the convention program;
- Opportunities to attend a luncheon with a noted humor writer or a “tailgate party;” and
- Space at the Convention (which, the Enterprises state, they would otherwise have been obliged to rent).

Although FHFA-OIG does not intend to minimize the need for the Enterprises to maintain their visibility, it is not apparent that the Enterprises need “a highly visible, cost effective way to place [their names] before key decision makers in the mortgage banking industry.” With control of an overwhelming majority of the secondary mortgage market, the Enterprises are themselves the “key decision makers in the mortgage banking industry.” Indeed, the Government National Mortgage Association (commonly referred to as “Ginnie Mae”), a federal government agency and another well-known “key decision maker” in the secondary mortgage market, was identified by its logo and link to its website on the Conference’s website only as a “participant.”<sup>8</sup>

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<sup>6</sup> The other three companies were Lender Processing Services, Inc.; MERS; and ServiceLink, FNF’s National Lender Program. Two other companies, QBE First and Radian Guaranty, Inc., paid for higher levels of sponsorship.

<sup>7</sup> The other six companies were Chase, Citi, Commerce Velocity, CoreLogic, First American, and Fiserv.

<sup>8</sup> [http://events.mortgagebankers.org/98th\\_annual/sponsorapplicationform](http://events.mortgagebankers.org/98th_annual/sponsorapplicationform).

An internal memorandum from one Enterprise reflects that part of its motivation for sponsoring the Convention at a particular level was its speculation about the other Enterprise's likely level of sponsorship.<sup>9</sup>

As detailed above, in the wake of the attention directed at Convention expenses, the Acting Director issued a directive to the Enterprises. Along with requesting heightened scrutiny by the Enterprises of their general and administrative expenses, the Acting Director stated that conference sponsorship is not an appropriate expenditure unless the Enterprises first secure the conservator's approval.

FHFA-OIG did not find a sufficient justification for the Enterprises' sponsorship of the Convention. But in light of the Acting Director's directive and subsequent guidance to the Enterprises, further analysis of this topic now appears to be unnecessary. FHFA-OIG commends the Agency for taking steps to address this issue.

**On-Site Costs and Hosted Dinners.** While at the Convention, personnel from the Enterprises conducted business meetings, engaged in outreach to customers and potential customers, and generally worked to promote the interests of the Enterprises. Attendant costs included meeting room rentals, food and beverages, and various exhibits. Moreover, each Enterprise sponsored two separate dinners at the Convention to which selected customers were invited. Although there is some indication that, at least in the case of Fannie Mae, efforts were made to limit the size and cost of the dinners, overall costs were still significant.

As was the case with the travel costs, the government's rules on conferences, although not explicitly applicable to the Enterprises, may serve as a helpful benchmark. Those rules permit expenditures such as room rental, computer and telephone access fees, printing costs, and transportation. But the regulations do not authorize formal meals such as those provided by the Enterprises at the Convention; rather, they allow only for the provision of "light refreshments," such as "coffee, tea, milk, juice, soft drinks, donuts, bagels, fruit, pretzels, cookies, chips or muffins."<sup>10</sup>

Once again, the Acting Director's December 13 letter to the Enterprises would appear to provide a basis upon which to resolve a substantial part of the concerns raised about the Enterprises' on-site expenses. Regarding expenditures on "meals, complimentary food, and like items," the

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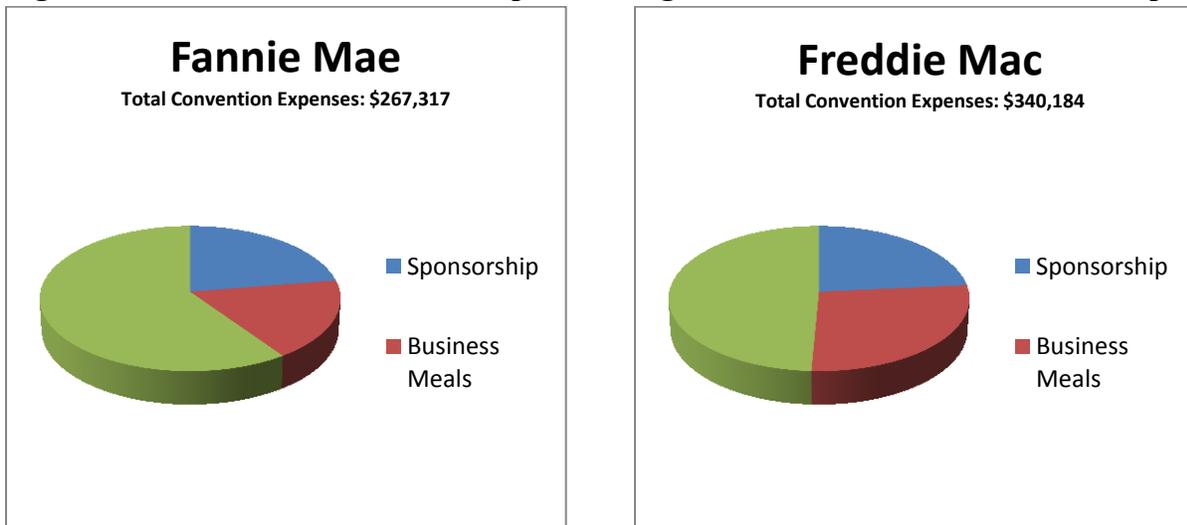
<sup>9</sup> See Memorandum, dated June 1, 2011, entitled "Recommended [Enterprise] Presence and Participation at the 2011 MBA Annual Convention & Expo."

<sup>10</sup> 41 C.F.R. §§ 301-74.2, 301-74.11.

Acting Director stated that such expenditures deserve special scrutiny and generally should be stopped.<sup>11</sup>

As reflected in Figures 4 and 5, below, the Enterprises' costs for participation in the Convention would have been substantially lower under the guidelines set forth in the Acting Director's letter (*i.e.*, without the expenditures on food and sponsorships).

**Figure 4: Fannie Mae Convention Expenses**      **Figure 5: Freddie Mac Convention Expenses**



**Other Conference Costs.** In addition to travel-related and registration expenses, sponsorships, and business meals costs, the Enterprises spent approximately \$70,000 on such costs as exhibit space at the Convention, exhibit costs, communications, audio-visual services, labor, and meeting room rental.

**Spouses and Entertainment.** FHFA-OIG noted that the Enterprises' travel and entertainment policies permit certain expenditures that, under comparable federal regulations, would not be authorized. These include entertainment costs (*e.g.*, theater tickets, sporting events, and the hosted meals discussed above) and travel by spouses. However, FHFA-OIG's review of the Enterprises' expenses at the Convention found no entertainment-related expenditures apart from the business meals discussed above. Moreover, FHFA-OIG found only one example of a spouse travelling at Enterprise expense in order to participate in a Convention-related event – specifically, the wife of Fannie Mae's CEO was the co-host of one of the hosted dinners.

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<sup>11</sup> The Acting Director's January 25, 2012 guidance tempers this prohibition somewhat, and allows for limited expenditure on business courtesies such as onsite refreshments or meals that serve a business purpose. FHFA-OIG notes, however, that the guidance contemplates such expenditures only as narrow exceptions to the prohibition. Whether the issue is satisfactorily resolved will depend on the Enterprises' implementation of the Acting Director's guidance. FHFA-OIG will review any revised Enterprise policies ultimately approved by the Agency.

**Number of Attendees.** The business and professional development opportunities presented at the Convention appear sufficient to warrant some degree of participation by the Enterprises. The fact that both Fannie Mae and Freddie Mac sent employees to Chicago without registering them for the Convention (to take advantage of opportunities to meet with a number of customers who were attending the Convention) tends to indicate that the Enterprises exercised some discretion in determining how many employees would be permitted to participate. However, FHFA-OIG did not find, nor was it able to develop, criteria of its own to determine the number of employees whose presence at the Convention was appropriate.

Nonetheless, FHFA-OIG notes that the Acting Director's January 25, 2012, guidance to the Enterprises stated that any future conference attendance should be strictly limited to employees whose attendance was required by the business goals of the Enterprise. The Acting Director further stated that such expenditures should be pre-approved by an appropriate level manager, and documented. Where multiple business units wish to send employees to the same convention, the Chief Financial Officer or Chief Administrative Officer of the Enterprise would be responsible for approval of the proposed attendees.

FHFA-OIG anticipates that, if implemented by the Enterprises, the Acting Director's guidance will satisfactorily address current concerns.

#### **IV. Overall Analysis**

Of the over \$600,000 expended by the Enterprises on the Convention, nearly half (approximately 46%) was accounted for by sponsorships, hosted dinners, and business meals. Although not all of these expenses would have been eliminated under the Acting Director's new directive and subsequent guidance (sponsorship benefits included room rentals and additional benefits that the Enterprises might otherwise have needed to purchase), it is readily apparent that the Enterprises would have been able to accomplish their business at the Convention at a substantially lower cost. FHFA-OIG acknowledges that business custom may often warrant the kinds of expenditures detailed above, but neither Enterprise was able to articulate tangible benefits accruing from its sponsorships, hosted dinners, and other business meals that would have warranted the expenditures – there is no indication that any business conducted by the Enterprises with their clientele at the Convention could not have been conducted as well without this largesse.

## Findings

In light of the foregoing, FHFA-OIG finds that:

- The Enterprises' registration and travel-related expenses for the Convention (*e.g.*, airfare, hotel, *per diem*) of \$282,633, when viewed on a *per capita* basis, were comparable to those that would have been allowable for federal employees; but
- Other expenses were of questionable value, including:
  - \$140,000 for sponsorships of the Convention; and
  - \$140,415 for business meals and hosted dinners.

Thus, of over \$600,000 expended by the Enterprises on the Convention, \$280,415, or almost one half, was of questionable value.

FHFA-OIG has reviewed the Enterprises' travel and entertainment policies, but, in light of the new directive and subsequent guidance issued by the Acting Director, has not examined the policies' impact in instances other than the Convention prior to the issuance of the directive. FHFA-OIG concludes that the Acting Director's new directive and guidance, if effectively enforced, will provide a solid basis for controlling future business and travel expenses.

The Acting Director's guidance to the Enterprises states that the Enterprises' "updated policies should be shared, following Enterprise approval, with FHFA's Office of Conservatorship Operations." The guidance also requires quarterly reporting to FHFA's Office of Conservatorship Operations of expenditures related to the categories outlined in the guidance. FHFA-OIG agrees, in light of congressional and public concerns over the Enterprises' administrative expenditures, that the updated policies and quarterly expense reporting should be reviewed and monitored by FHFA.

## Recommendations

FHFA-OIG recommends, in accordance with the Agency's January 25, 2012 guidance to the Enterprises, that:

1. FHFA should ensure that the Enterprises conduct a comprehensive review of their travel and entertainment policies, and revise them in a manner consistent with the January 25 guidance; and

2. FHFA should review the Enterprises' proposed revisions to ensure that they are drafted in a manner consistent with the guidance provided by FHFA and that the Enterprises have established appropriate controls to monitor compliance.<sup>12</sup>

FHFA-OIG will monitor the Agency's implementation and oversight of these recommendations.

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<sup>12</sup> Because FHFA-OIG's study was limited to the Enterprises' participation in the 2011 MBA Convention, certain aspects of the Enterprises' travel and entertainment policies (*e.g.*, international travel, entertainment costs, spousal travel, etc.) were either unrelated or only peripherally related to the substance of this report. Nonetheless, the comprehensive review of the Enterprises' travel and entertainment policies recommended herein should embrace all aspects of those policies to ensure that they are consistent with the goals and direction of the conservatorships.

# Appendix A – FHFA’s Response to Findings and Recommendation



## Federal Housing Finance Agency

### MEMORANDUM

TO: George Grob, Deputy Inspector General for Evaluations

FROM: Jeffrey Spohn, Senior Associate Director, Office of Conservatorship Operations

SUBJECT: Evaluation Survey Report: Recommendation Status for Fannie Mae’s and Freddie Mac’s Travel Related Expenses for the 2011 Mortgage Bankers Association Annual Convention

DATE: March 5, 2012

This memorandum transmits the Federal Housing Finance Agency’s (FHFA) management responses to the status of the recommendations resulting from the survey performed by your staff. As stated in report, the purpose of the survey was to assess the reasonableness of the Enterprises’ costs of participation in the 2011 Mortgage Bankers Association Convention and Exposition.

This memorandum: (1) identifies management’s actions that have been taken to implement the recommendations; and (2) identifies the actions that FHFA will take to address the recommendations.

**Recommendation:** In accordance with its January 25, 2012 guidance to the Enterprises, FHFA should ensure that the Enterprises conduct a comprehensive review of their travel and entertainment policies, and revise them in a manner consistent with the Acting Director’s directive. Through a review of the Enterprises’ proposed revisions, FHFA should ensure that the policies are drafted in a manner consistent with the guidance provided by FHFA and that the Enterprises have established appropriate controls to monitor compliance.

**Management Response:** FHFA agrees with the recommendation. Both Enterprises are in the process of implementing the policy and process changes, including implementation of quarterly reporting. FHFA’s Office of Conservatorship Operations will review the revisions implemented by both Enterprises to ensure the changes are consistent with FHFA’s guidance. FHFA’s Office of Conservatorship Operations will also review quarterly reporting once systems are established to provide the details. These actions are underway and will continue throughout 2012. The Office of Conservatorship Operations will provide a final summary report by January 31, 2013.

## **Appendix B – Objective, Scope, and Methodology**

The objective of this study was to evaluate the reasonableness of the Enterprises' costs of participation in the 2011 Mortgage Bankers Association Convention and Exposition.

To address this objective, FHFA-OIG:

- Reviewed documentation and lists of expenses submitted by the Enterprises to FHFA;
- Reviewed public information published by the MBA concerning its annual conventions;
- Reviewed the Enterprises' and federal travel policies with respect to:
  - The scope of approved travel;
  - Expenses allowed for travel, hotels, meals, and incidental expenses;
  - Procedures for authorizing travel; and
  - Procedures for approving travel vouchers;
- Reviewed the Enterprises' travel and related costs for attending the Convention and compared them to those that would have been allowable under federal travel policies and procedures; and
- Interviewed an executive from the Agency's Office of Conservatorship Operations and conducted telephone conferences with Enterprise executives.

FHFA-OIG was unable to develop criteria to determine the appropriate number of attendees at the Convention.

Enterprise travel and entertainment policies also allow for expenditures on items such as outings with clients to sporting events, symphonies, or similar entertainment. Because it does not appear that such outings took place during the MBA Convention, FHFA-OIG has not considered the propriety of such expenditures in this report. Nevertheless, in light of Acting Director DeMarco's letter, FHFA-OIG anticipates that the provisions of the Enterprise policies allowing for such expenditures will receive careful scrutiny at both the Enterprise and conservator levels.

## **Additional Information and Copies**

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