



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2014, through March 31, 2015



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## Our Vision

To be a first-rate independent oversight organization in the federal government by acting as a catalyst for effective management, accountability, and positive change in the Federal Housing Finance Agency (FHFA or Agency) and bringing enforcement actions against those, whether inside or outside of the federal government, who waste, steal, or abuse government funds in connection with the Agency, Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks.

## Our Mission and Core Values

The Federal Housing Finance Agency Office of Inspector General's (OIG) mission is to provide independent, relevant, timely, and transparent oversight of the Federal Housing Finance Agency that promotes accountability, integrity, economy, and efficiency; advises the Director of the Agency and Congress; informs the public; and engages in robust enforcement efforts to protect the interests of the American taxpayers.

## Integrity and Excellence

We strive to maintain the highest level of integrity, professionalism, and excellence in our work. We follow the facts—wherever they go, without fear or favor; report findings that are supported by sufficient evidence in accordance with professional standards; and recommend actions tied to our findings. Our work is risk-based, credible, and timely.

## Accountability

We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and its conservatorship of Fannie Mae and Freddie Mac). The U.S. taxpayers have invested \$187.5 billion into Fannie Mae and Freddie Mac; our oversight role reaches third parties (such as lenders and servicers) who deal with those entities to ensure that they are satisfying their obligations to these entities and that taxpayer monies are not wasted or misused.

## Transparency

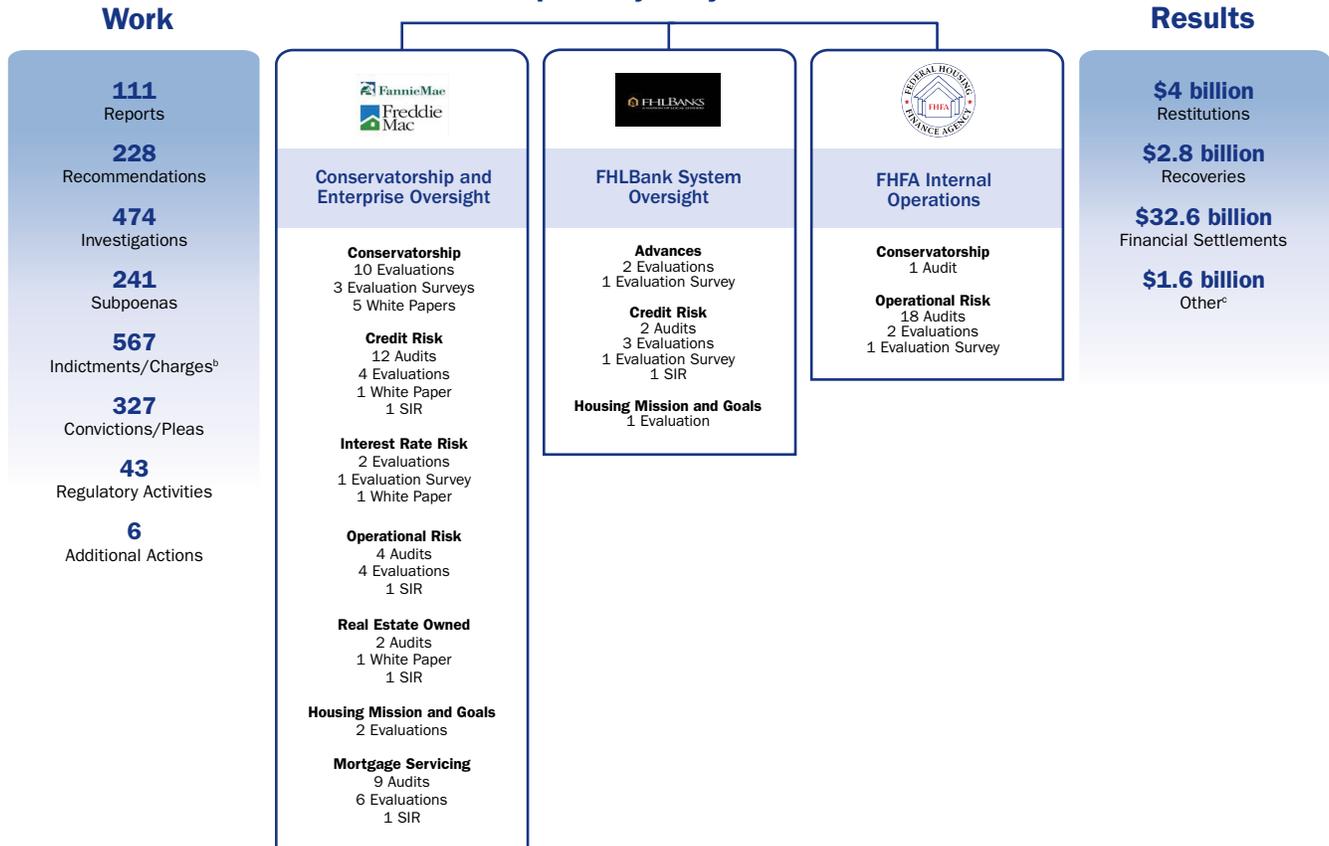
We emphasize transparency in our oversight work to the fullest reasonable extent to foster accountability in use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator and the need for corrective action.

Report fraud, waste, or abuse by visiting [www.fhfa.ig.gov/ReportFraud](http://www.fhfa.ig.gov/ReportFraud) or calling (800) 793-7724.

# OIG's Accomplishments from 2010 to Present



## Reports by Subject Area



<sup>a</sup>12 SIRs have been produced, of which 5 have been published publicly and 7 remain privileged due to their investigative content.

<sup>b</sup>Superseding indictments are included in this total.

<sup>c</sup>Other is comprised of funds put to better use, questioned costs, unsupported costs, and fines.



# A Message from the Inspector General

I am pleased to present OIG's ninth Semiannual Report to the Congress, which covers our activities and operations from October 1, 2014, to March 31, 2015.

This is my first semiannual report since being confirmed by the Senate on September 18, 2014, and taking the oath of office shortly thereafter. During this first reporting period, I focused on assessing OIG's strengths, weaknesses, challenges, and opportunities to best position OIG to fulfill its critical mission to provide in-depth oversight coverage and risk management. Our goal is clear: to protect the taxpayers' interests by acting as a catalyst for effective management and positive change at FHFA and accountability for the Enterprises in FHFA's conservatorship.

To maximize OIG's effectiveness, we engaged in discussions with FHFA, the Enterprises, and stakeholders and reviewed reports and risk assessments and identified four areas that present the highest levels of financial, governance, and reputational risk: conservatorship operations, Enterprise supervision, nonbank sellers, and information technology security. For each risk area, we developed a work plan to test the effectiveness of current controls, which is now underway.

Recognizing that the effectiveness of OIG oversight turns on our ability to identify new and emerging areas of risk, I created an Office of Risk Analysis. That Office, staffed with professionals across OIG, will assist in our efforts to detect and analyze new and emerging risks and provide sophisticated assessments of such risks, which, in turn, will guide our work plan and inform our approach. My experience leading internal investigations in the private sector taught me that remedial recommendations to address deficiencies require meaningful follow-up and oversight. To that end, I created an Office of Compliance to assess the Agency's efforts to implement remedial recommendations and conduct validation testing. I expect that both of these new offices will enhance OIG's ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA.

As part of its mission, OIG engages in robust enforcement efforts. OIG's Office of Investigations opened 44 cases and had 277 ongoing investigations of individuals and organizations during this reporting period. To date, 567 defendants have been charged with crimes investigated by OIG, of which 327 were convicted or pled guilty and 222 were sentenced. OIG continued its active role in the Residential Mortgage-Backed Securities (RMBS) Working Group, which was established to hold accountable those responsible for misconduct that contributed to the financial crisis through the pooling and sale of RMBS. Since 2012, OIG's investigations with our law enforcement partners have led to civil settlements totaling more than \$32.6 billion, a significant step in corporate accountability and in bringing money back to victims and the U.S. government.

OIG's efforts to fulfill its duty to maximize the efficiency of FHFA programs and operations is made possible by its ongoing commitment to integrity, transparency, and accountability. Its accomplishments during this reporting period are a credit to the dedicated and hardworking professionals I now have the privilege to lead.

Laura S. Wertheimer  
Inspector General  
April 30, 2015



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

# Executive Summary

## Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**.<sup>\*</sup> HERA charged the newly created FHFA to serve as regulator of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)**, abolished the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board, and transferred mission supervision of the Enterprises from the Department of Housing and Urban Development (HUD) to FHFA, thereby consolidating all supervision of the Enterprises and the FHLBanks (collectively, the **government-sponsored enterprises**, or the **GSEs**) within FHFA. HERA vested FHFA with supervisory authorities comparable to those of other federal financial safety and soundness regulators and enhanced resolution authority. In addition to its supervisory role of safety and soundness, FHFA is tasked under HERA with supervision of the Enterprises' efforts to meet HERA's housing goals and to fulfill the obligations of their respective charters.

Among its other provisions, HERA temporarily granted the Department of the Treasury (Treasury) unlimited investment authority in the Enterprises. Less than two months later, FHFA placed the

Enterprises into its **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the U.S. entered into **Senior Preferred Stock Purchase Agreements (PSPAs)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, injected a total of \$187.5 billion over the course of 2008 to the present. At that time, conservatorship was intended to be a "time out" during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their seventh year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity.

HERA also amended the **Inspector General Act of 1978** to establish an Office of Inspector General (OIG) for FHFA. OIG began operations on October 12, 2010, when its first Inspector General was sworn in. OIG is dedicated to promoting the economy, efficiency, and effectiveness of the programs and operations of FHFA; preventing and detecting fraud, waste, and abuse in FHFA's programs and operations; reviewing and commenting on pending legislation and regulations; and bringing civil, criminal, and administrative actions against those, whether inside or outside of the government, who commit fraud, waste, or abuse in connection with the programs and operations of FHFA. We are dedicated to protecting the American taxpayer by conducting audits, evaluations, compliance testing, and investigations that promote economy and efficiency in the management of FHFA programs and operations. We view our oversight role both prospectively (by advising FHFA on issues relating to **internal controls** and fraud prevention) and retrospectively (by assessing the effectiveness of FHFA activities over time and recommending improvements).

**\*Terms and phrases in bold are defined in Appendix A, Glossary and Acronyms. If you are reading an electronic version of this Semiannual Report, then simply move your cursor to the term or phrase and click for the definition.**

Because FHFA serves a unique role as both conservator and regulator of the Enterprises, OIG's responsibilities necessarily include oversight of FHFA actions, when it acts as conservator, to determine whether FHFA is fulfilling its statutory duties and responsibilities and safeguarding taxpayers. Our oversight role also reaches the Enterprises, recipients of \$187.5 billion in taxpayer monies, to ensure that they are satisfying their obligations under the authority delegated to them in the conservatorships, and third parties (such as lenders and **servicers**). Through oversight, transparent reporting of results, and robust enforcement, OIG seeks to be a voice for, and protect the interest of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

This Semiannual Report discusses OIG operations and FHFA developments from October 1, 2014, to March 31, 2015. During this reporting period, OIG directed its resources toward those areas of greatest risk to the Agency. Our revised Audit and Evaluation Plan identifies the four largest areas of risk to the Agency and the work streams that we intend to follow to assess each of those risks. We continued our vigorous civil, criminal, and administrative enforcement activities against those, inside and outside of government, who waste, steal, or abuse taxpayer monies involving Agency or Enterprise operations.

## **Section 1: Oversight Strategy, Organizational Structure, and Accomplishments**

This section provides a brief overview of OIG's risk-based strategy, organization, and oversight activities, including reports and investigations during this reporting period.

It also discusses numerous OIG investigations that resulted in indictments and convictions of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises, and in fines and restitution orders totaling more than \$34.6 million.

## **Section 2: FHFA and GSE Operations**

This section describes the organization and operations of FHFA, the Enterprises, and the FHLBanks, as well as key developments for each during the reporting period.

It also details the Enterprises' financial results. While the Enterprises continued to be profitable, net income in 2014 was substantially lower than in 2013, and their future profitability is not assured.

# Section 1: Oversight Strategy, Organizational Structure, and Accomplishments

OIG began operations on October 12, 2010. It was established by HERA, which amended the Inspector General Act. The primary mission of the OIG for FHFA is to conduct independent audits, evaluations, and investigations to promote economy and efficiency and to prevent and detect fraud, waste, abuse, and mismanagement in the programs and operations of the Agency, including its conservatorship of the Enterprises.

OIG's operations are funded by annual assessments that FHFA levies on the Enterprises and the FHLBanks pursuant to 12 U.S.C. § 4516. For fiscal year 2015, OIG's operating budget is \$48 million, with 150 full-time-equivalent staff.

## Risk-Focused Strategy

OIG's mandate is broad and comprehensive, involving oversight of the full scope of the Agency's programs and operations and of its conservatorship of the Enterprises. Our work plan is dynamic and will adapt to a changing risk profile. To best leverage our resources to strengthen OIG's oversight, we determined to focus our resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks. After discussions with FHFA, the Enterprises, and different stakeholders to seek input on the largest risks, as well as a review of reports prepared by FHFA and third parties, and risk assessments performed in key areas related to FHFA's mission, and hotline complaints, we identified the areas of greatest risk:

- FHFA's ongoing work as conservator;
- FHFA's rigor in conducting examinations in its role as regulator of the Enterprises;

- FHFA's oversight of the Enterprises' controls for smaller or nondepository financial institution mortgage sellers (nonbank sellers); and
- FHFA's oversight of the information technology (IT) security at the Enterprises and the FHLBanks.

With a shared understanding of the greatest risks, we took a hard look at the Audit and Evaluation Plan and identified numerous issues within each risk area that should take precedence over projects planned in OIG's then-pending work plan. Our audit and evaluation functions developed work plans to assess the adequacy of the controls for each of the risks.

## Audit and Evaluation Plan

The results from our strategic planning process led us to revise the Audit and Evaluation Plan to focus on risks facing the Agency and the GSEs. This risk-based approach, detailed in our Audit and Evaluation Plan of February 2015, focuses on four areas that OIG believes present high levels of financial, governance, and reputational risk to FHFA and the GSEs:

- **Conservatorship Operations.** Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration. As conservator, the Agency has expansive authority to make business and policy decisions for two large, complex companies that dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S. housing finance industry and thus influence and affect the entire mortgage finance industry. Given this environment, OIG's work will include: (1) assessing the conservator's governance practices, internal controls,

decision-making process, and follow-up activities; and (2) evaluating selected conservator-sponsored initiatives. These efforts have commenced and will assist OIG in assessing whether FHFA is fulfilling its statutory duties and responsibilities as conservator and safeguarding taxpayers.

- **Enterprise Supervision.** FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises to ensure their safe and sound operation. DER is responsible for designing a comprehensive, risk-based supervisory strategy, conducting ongoing monitoring or targeted examinations of risk areas, and monitoring Enterprise remediation of deficiencies identified during examinations. Consistent with DER's examination structure, OIG has planned a series of evaluations: (1) assessing DER's processes for identifying risks; (2) reviewing its targeted examinations and ongoing monitoring; and (3) evaluating its verification of the Enterprises' remediation activities. These efforts have commenced and will assist OIG in assessing whether DER fulfilled its statutory duties and responsibilities and safeguarded taxpayers.
- **Nonbank Sellers.** The Enterprises have been acquiring an increasing portion of their single-family business volume directly from nonbank sellers, which may not have the same financial strength, liquidity, or operational capacity as their larger depository institution counterparties. As a result, the Enterprises face increased risk that these counterparties could fail to perform their obligations. Accordingly, OIG has planned a series of audits: (1) analyzing the risks posed by the increased nonbank business volume; (2) evaluating the adequacy of FHFA's oversight

of the Enterprises' controls for nonbanks; and (3) studying the Enterprises' controls for nonbanks. These efforts are intended to assess whether FHFA and the Enterprises have sufficiently mitigated the increased risk posed by nonbank sellers. In January 2015, OIG commenced the first audit of the series that will analyze the Enterprises' exposure to nonbank sellers and the steps that FHFA and the Enterprises have taken to assess the risk posed by nonbank sellers.

- **IT Security.** The Enterprises' computer systems, software, and networks may be vulnerable to cyber attacks, breaches, unauthorized access, misuse, computer viruses or other malicious codes, or other attempts to harm them or misuse or steal confidential information. Among other things, a breach of an Enterprise's security system could disrupt its business operations or result in the unauthorized disclosure or misuse of confidential and other information. Our work will include assessing whether FHFA has provided sufficient oversight of: (1) Fannie Mae's implementation of controls to ensure the protection of personal information processed and stored on its information systems; and (2) selected FHLBanks' vulnerability in scanning and patching procedures for business-critical information systems.

Our revised Audit and Evaluation Plan explains the risks on which our audit and evaluation teams are focusing and the work that is underway or will commence shortly on each of the work streams. The plan is available at [www.fhfa.gov/Reports/AuditAndEvaluationPlan](http://www.fhfa.gov/Reports/AuditAndEvaluationPlan). The work plan for each identified risk has been designed to produce reports

that can be generated promptly both to increase transparency and to improve the programs and operations of the Agency without compromising the rigor of the methodology.

To set the stage for this risk-based platform, we prepared four white papers, of which three have been published, to provide a baseline of information. The three published white papers are listed below and relate to one or more of the key risks. Summaries of the papers start on page 11.

- *The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured;*
- *FHFA's Conservatorships of Fannie Mae and Freddie Mac: A Long and Complicated Journey;* and
- *Cyber Security: An Overview of FHFA's Oversight of and Attention to the Enterprises' Management of Their IT Infrastructures.*

A fourth white paper, which explains the Enterprises' new 97% **loan-to-value (LTV)** loan purchase programs, is scheduled to be issued shortly. In that white paper, we review the history of high LTV programs offered by both Enterprises, examine whether the new guidelines further FHFA's stated rationale for them, and identify the risks associated with high LTV loans and the controls put into place to address those risks.

As part of our strategic planning process, we recognized the need for better organizational alignment with priorities of the office. We have taken steps to improve internal efficiencies by encouraging greater collaboration across our offices because nothing is more powerful and productive than when we work collaboratively. Regardless of cross-divisional efforts, reports published by the Office of Audits will continue to adhere to the *Government Auditing Standards*, commonly referred to as the

"Yellow Book," and reports published by the Office of Evaluations will continue to adhere to the *Quality Standards for Inspection and Evaluation*, commonly referred to as the "Blue Book." We are also requiring additional employee training in a number of critical areas.

Additionally, we established two new offices—the Office of Risk Analysis (ORA) and the Office of Compliance and Special Projects (OCo)—to strengthen OIG's oversight. Both will enhance OIG's ability to stimulate positive change and promote economy, efficiency, and effectiveness at FHFA.

Our office is charged with rigorous oversight of FHFA's exercise of its critical conservatorship responsibilities and of its regulatory duties in order to protect the taxpayers' \$187.5 billion invested in the Enterprises and safeguard against the potential \$5 trillion in taxpayer exposure from the mortgages owned or **guaranteed** by the Enterprises. To exercise rigorous oversight of the Agency, we must identify emerging risks and be sufficiently nimble to revise our work plan as new risks emerge and existing risks become well-controlled. The newly established Office of Risk Analysis will use data mining, quantitative data, and analysis of data and relevant information to identify and monitor emerging and ongoing areas of risk. The identification, analysis, and prioritization of risk areas will allow us to utilize resources strategically and realign our Audit and Evaluation Plan, in real time, to address those risks.

The newly created Office of Compliance and Special Projects is tasked with two missions. First, this office will be responsible for assessing the status of recommendations made to FHFA in all OIG audits, evaluations, and systemic implication reports and reviewing actions taken by FHFA to address such recommendations. The Office of Management and Budget (OMB) provides policies and procedures to

agencies for resolving audit and evaluation findings and taking corrective action on recommendations. According to OMB's policies and procedures, audit and evaluation recommendation follow-up is a shared responsibility of Agency management officials and OIG because corrective action taken by Agency management on OIG findings and resolved recommendations is essential for improving the effectiveness and efficiency of Agency operations. Agencies are required to establish systems to ensure the prompt and proper resolution and implementation of monetary and nonmonetary OIG findings and recommendations.

To accomplish these objectives from the OIG perspective, this newly created office has identified all recommendations made to FHFA by OIG and categorized each one by intended outcome, recommended action, and Agency response. It has begun to conduct validation testing to analyze whether the recommendations closed by OIG were fully implemented with appropriate remedial steps as represented by FHFA. It will prepare and submit reports, to be published on OIG's website, setting forth the results of its validation testing. OCo will also work closely with other offices when they are drafting recommendations to ensure that proposed recommendations yield concrete deliverables that will be susceptible to future validation testing. Additionally, OCo will undertake special projects, such as congressional requests, to examine emerging issues and deliver prompt, actionable reports to the Congress.

## Leadership

On May 22, 2014, President Barack Obama nominated Laura S. Wertheimer to the position of FHFA Inspector General; she was confirmed by the Senate on September 18, 2014, and sworn in shortly

thereafter. Prior to becoming Inspector General, Ms. Wertheimer was a partner at a law firm where she led numerous independent internal investigations on behalf of audit, governance, and special board committees of publicly traded companies. She also represented public companies, professional service partnerships, and corporate directors and officers in regulatory investigations and enforcement proceedings under the federal securities laws.

OIG consists of the Inspector General, senior staff, and OIG offices, principally: the Office of Audits, Office of Evaluations, Office of Investigations, and the Office of Compliance and Special Projects. Additionally, OIG's Executive Office, which includes the Office of Chief Counsel and the Office of Risk Analysis, provides organization-wide supervision, and the Office of Administration and the Office of Internal Controls and Facilities provide organization-wide support.

## OIG's Organizational Structure

OIG pursues its mission through six primary offices—Executive, Risk Analysis, Audits, Evaluations, Investigations, and Compliance and Special Projects. The primary offices are supported by an Office of Chief Counsel and administration function.

### Executive Office

The Executive Office (EO) provides leadership and programmatic direction for OIG's offices and activities.

EO includes the Office of Chief Counsel (OC), which serves as the chief legal advisor to the Inspector General and provides independent legal advice, counseling, and opinions to OIG about its programs and operations. OC also reviews audit and evaluation

reports for legal sufficiency and compliance with OIG's policies and priorities. Additionally, it reviews drafts of FHFA regulations and policies and prepares comments as appropriate. OC also coordinates with FHFA's Office of General Counsel and manages OIG's responses to requests and appeals made under the Freedom of Information Act and the Privacy Act.

The Office of External Affairs is also within EO, and it responds to inquiries from members of Congress.

The Office of Communications is also within EO, and it responds to inquiries from the press and public.

OIG's Equal Employment Opportunity Program is also within EO, and it oversees equitable opportunities in the workplace per federal code.

### Office of Risk Analysis

To exercise rigorous oversight, we must identify emerging risks and revise our work plan as new risks emerge and existing risks are well-controlled. Our newly established Office of Risk Analysis (ORA) will use data mining, quantitative data, and analysis of data and relevant information to identify and monitor emerging and ongoing areas of risk. The identification, analysis, and prioritization of risk areas will allow us to utilize resources strategically and realign our Audit and Evaluation Plan, in real time, to address those risks.

### Office of Audits

The Office of Audits (OA) is tasked with designing and conducting independent performance audits with respect to the Agency's programs and operations. Our revised Audit and Evaluation Plan explains the work streams underway to test whether the existing controls are sufficient to mitigate or reduce the identified risks. In addition, OA undertakes projects to address statutory requirements and stakeholder

requests. For example, the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires OIG to audit FHFA's compliance with IPIA during fiscal year 2014. On or before May 15, 2015, OA will publish a report detailing FHFA's compliance with IPIA during fiscal year 2014. OA commenced two audits in March 2015 that are also required by statute: the Federal Information Security Management Act of 2002 (FISMA) directs OIG to audit whether FHFA's and OIG's information security programs and practices meet FISMA's security requirements. Additionally, with respect to stakeholder audit requests, in January 2015, OIG announced a congressionally requested audit to assess FHFA's oversight of the Enterprises' internal controls over contractors' maintenance of **foreclosed** properties in the Enterprises' inventories.

Under the Inspector General Act, inspectors general are required to comply with the Government Accountability Office's (GAO) Yellow Book. OA performs its audits and attestation engagements in accordance with the Yellow Book.

### Office of Evaluations

The Office of Evaluations (OE) conducts program and management reviews and makes recommendations for improvement where applicable. OE provides independent and objective reviews, studies, survey reports, and analyses of FHFA's programs and operations. The **Inspector General Reform Act of 2008** requires that inspectors general adhere to the Blue Book, issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the Blue Book.

## Office of Investigations

Staffed with special agents, investigators, analysts, prosecutors, and attorney advisors, the Office of Investigations (OI) supervises and conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies in connection with programs and operations of the Agency and the GSEs.

While OI also pursues wrongdoers within the Agency and within the GSEs, it has focused and will continue to focus on third parties that contract with the Enterprises to sell and service loans. Those who make misrepresentations to the Enterprises in connection with loans that the Enterprises buy or guarantee may violate several criminal statutes, and we investigate these potential crimes vigorously.

OI also takes the lead in responding to referrals made to OIG's hotline through telephone, email, website, and in-person complaints, abiding by all applicable whistleblower protections set forth in the Inspector General Act. Our hotline is staffed by a third-party vendor to protect the anonymity of the callers and provides easy access for individuals to report concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with programs and operations of the Agency. During this reporting period, our hotline has received and analyzed 1,117 contacts. When OI determines that a full investigation is not warranted, it works closely with OA and OE to determine whether an audit or evaluation project is advisable.

To maximize criminal and civil law enforcement, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Postal Inspection Service, the Federal Bureau of Investigation (FBI), the

Department of Housing and Urban Development Office of Inspector General (HUD-OIG), the Secret Service, IRS-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

## Office of Compliance and Special Projects

The newly created Office of Compliance and Special Projects (OCs) is staffed with lawyers and individuals from OA, OE, and OI and is responsible for conducting validation testing to determine whether the OIG recommendations agreed to by FHFA, or the controls adopted by FHFA to respond to OIG reports, were fully implemented by the Agency. These seasoned professionals will jointly apply their expertise to test whether the Agency's representations regarding remediation have been fulfilled.

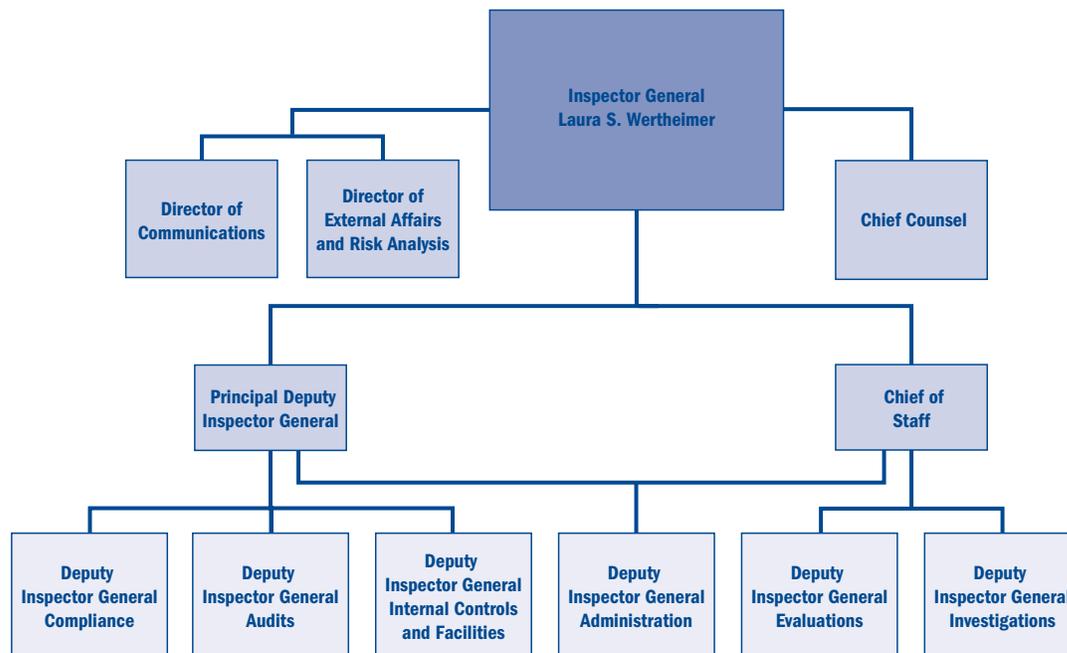
## Office of Administration

The Office of Administration (OAd) manages and oversees OIG administration, including budget, human resources, financial management, and IT. For human resources, OAd develops policies to attract, develop, and retain exceptional people, with an emphasis on linking performance planning and evaluation to organizational and individual accomplishment of goals and objectives. OAd coordinates budget planning and execution and oversees all of OIG's procedural guidance for financial management and procurement integrity.

## Office of Internal Controls and Facilities

The Office of Internal Controls and Facilities (OICF) manages and oversees safety, facilities, and internal controls. OICF administratively supports the implementation of OIG's Internal Management Assessment Program, which requires the routine inspection of each OIG office to ensure that it complies with applicable requirements.

## OIG's Organizational Chart



## OIG's Strategic Plan

OIG's Strategic Plan for fiscal years 2015-2017 sets out OIG's goals and objectives to ensure the integrity, transparency, effectiveness, and soundness of FHFA's operations and the operations of the organizations that FHFA oversees. OIG will continue to monitor events; make changes to the Strategic Plan as circumstances warrant; and strive to remain relevant regarding areas of concern to FHFA, the GSEs, Congress, and the American people.

Within the Strategic Plan, OIG has established several goals that will be used as a blueprint for OIG's oversight of FHFA and independent reporting.

### **Strategic Goal 1—Promote FHFA's Effective Oversight of the GSEs' Safety and Soundness and Housing Missions**

OIG will promote effective risk oversight by FHFA, assess FHFA's oversight of the GSEs' housing mission and goal responsibilities, and assess the effectiveness of FHFA's operations.

### **Strategic Goal 2—Promote FHFA's Effective Management and Conservatorship of the Enterprises**

OIG will assess FHFA's and the Enterprises' plans and progress on their strategic goals; assess FHFA's effectiveness in controlling the costs of the conservatorships; and detect and deter fraud, waste, and abuse.

### **Strategic Goal 3—Promote Effective FHFA Internal Operations**

OIG will detect and deter fraud, waste, and abuse.

### **Strategic Goal 4—Promote Effective OIG Internal Operations**

OIG will maintain workforce expertise and collaboration to meet goals, maintain access and data security protocols with FHFA and the GSEs, and ensure reporting processes are useful to stakeholders.

## OIG's Oversight Activities During the Reporting Period

OIG actively strives to fulfill its mission through audit, evaluation, and compliance projects and reports and through investigations. Our Audit and Evaluation Plan sets forth the audit and evaluation projects that are either underway or will be launched in the next few months. During this semiannual period, OIG released three white papers and five reports, which are summarized below.

### White Papers

#### **Cyber Security: An Overview of FHFA's Oversight of and Attention to the Enterprises' Management of Their IT Infrastructures (WPR-2015-003, March 31, 2015)**

The Enterprises are the two largest institutions issuing mortgage-related securities in the U.S. secondary mortgage market. They store, process, and transmit financial data and personally identifiable information (PII) in connection with their mission to support this market. As events over the past year have shown, other organizations holding similar types of data have sustained significant cyber attacks. Recent history demonstrates the diversity and danger of cyber attacks for institutions worldwide. Cyber criminals appear particularly keen on stealing customer information (like names, addresses, phone numbers, account numbers, passwords, user IDs, dates of birth, or Social Security numbers), trade secrets, or other confidential information and compromising the credentials of a legitimate user to commit financial fraud. Some hackers have motivations other than theft; for example, cyber attackers skilled in IT as well as with the controls systems and production processes of an iron plant in Germany exploited vulnerabilities in the computer system to cause a blast furnace to explode and destroy the plant. National Security Agency Director Rogers has reported that over the past few years, cyber

threat actors have become more adept at gaining the technology needed to launch crimes against critical U.S. infrastructures in an effort to selectively shut down parts of the power grid and other utilities. A November 2014 report from the international standard-setting Committee on Payments and Market Infrastructures warned that stock exchanges, settlement systems, and clearing houses around the world have become increasingly vulnerable to cyber attacks, and a sophisticated cyber attack could interrupt or destabilize financial markets. Because of the significant financial, governance, and reputational risks that could flow from a cyber attack on the Enterprises, OIG determined that cyber security is a significant risk.

OIG prepared this white paper to summarize the types of known cyber threats in the current environment and assess the possible risks to the Enterprises from such threats. We also provided an overview of the Enterprises' cyber risk management practices to prevent and detect cyber attacks. In its work plan, OIG intends to review FHFA's oversight of the Enterprises' IT security and study the GSEs' controls for IT security to evaluate whether controls over IT security are sufficiently robust.

#### **FHFA's Conservatorships of Fannie Mae and Freddie Mac: A Long and Complicated Journey (WPR-2015-002, March 25, 2015)**

In 2008, FHFA placed Fannie Mae and Freddie Mac in conservatorship. Since that time, the Enterprises have required \$187.5 billion in financial support from Treasury in order to avert insolvency and receivership. These conservatorships are now in their seventh year. The FHFA Director has asserted that conservatorship "cannot and should not be a permanent state" for the Enterprises and, under his stewardship, FHFA will continue the conservatorships until a new housing finance system is put into place by Congress. At present, the conservatorships are of unknown duration and the Enterprises, as necessary, will rely on Treasury

for financial support if they are not able to sustain profitability in the future. Given the taxpayers' enormous investment in the Enterprises and the Enterprises' critical role in the secondary housing finance market, OIG determined that FHFA's administration of the conservatorships constituted a critical risk.

In this white paper, OIG outlined the history of these conservatorships and FHFA's evolving management of them. We then summarized findings of prior OIG reports that reviewed conservatorship decisions and practices. Last, we outlined OIG's planned work in the coming year to assess the conservator's governance practices, internal controls, decision-making process, and follow-up/compliance activities.

**The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured (WPR-2015-001, March 18, 2015)**

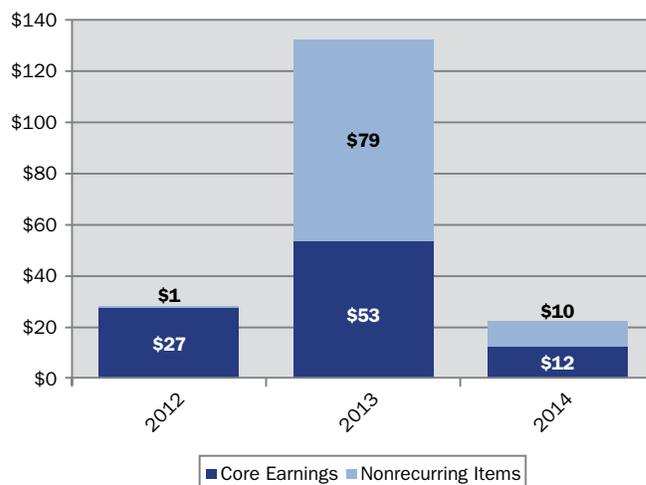
The Enterprises' financial conditions have stabilized and market conditions have improved since 2008. They returned to profitability in 2012; however, the level of earnings they experienced in 2013 and 2014 is not sustainable over the long term. The lack of consensus in Congress about what the nation's mortgage finance system should look like and what role, if any, the Enterprises should play in it means the Enterprises will continue to operate under FHFA's conservatorship until these issues are resolved. The outsized financial results reported by the Enterprises in 2012 and 2013 led some to conclude that the Enterprises would remain profitable for the foreseeable future. OIG recognized the many challenges faced by the Enterprises that affect their profitability and understood that, if these challenges caused losses that resulted in a negative net worth for an Enterprise, then that Enterprise would be obligated to obtain an injection of additional taxpayer monies. OIG prepared this white paper to explain the challenges faced by the Enterprises affecting their

profitability and to caution that future profitability was not assured.

In the white paper, OIG explained that nonrecurring events were a significant driver of earnings in 2013 and 2014 and are unlikely to drive future earnings. Core earnings from the Enterprises' business segments—single-family guarantee, multifamily, and investments—comprised only 40% of net income in 2013 and 55% in 2014 (see Figure 1, below).

Going forward, the Enterprises will have to rely on their guarantee fee business segments and mortgage-related investment portfolios for earnings, and those sources are subject to uncertainty. The Enterprises must reduce the size of their retained investment portfolios over the next few years pursuant to the terms of their agreements with Treasury and additional limits from FHFA. Declines in the size of these portfolios will reduce portfolio earnings over the long term. These portfolios have been the Enterprises' largest source of earnings in the past. Additionally, legislation from Congress and directives by FHFA, as the Enterprises' conservator, have raised the Enterprises' guarantee fees, the primary source of revenue for their single-family guarantee business segments. However, the Enterprises have cautioned that any income growth from guarantee fees may not

**Figure 1. The Enterprises' Core Earnings and Nonrecurring Items 2012 to 2014 (\$ billions)**



completely offset the loss in income from the retained portfolios. Further, as policy perspectives change, the Enterprises' fees could be reduced in the future.

The housing finance system is in the midst of a period of significant uncertainty, and those uncertainties relate to key market drivers such as home mortgage rates, home prices, credit standards, and other rates (e.g., short-term and long-term **swap** rates) that impact the Enterprises' financial performance. Future profitability will be determined by how these drivers change and to what degree. For instance, fluctuations in interest rates introduce volatility into the Enterprises' **derivatives** portfolios. The Enterprises report changes in the value of their derivatives portfolios as fair value gains or losses, and those changes impact financial performance. For example, Fannie Mae reported fair value gains on derivatives of \$3.3 billion in 2013 and fair value **derivative losses** of \$5.8 billion in 2014, a swing of more than \$9 billion.

While OIG cannot predict whether additional Treasury investments in either Enterprise are a reasonable possibility in the near future, we recognize that significant uncertainties concerning the level of guarantee fees the Enterprises will be able to charge, when combined with the winding down of their investment portfolios and loss of interest income and possible losses on the derivatives portfolios, mean that the Enterprises' future profitability is far from assured.

## Reports

### **FHFA's Oversight of Two Mission-Related Requirements for Federal Home Loan Bank Long-Term Advances (ESR-2015-005, March 31, 2015)**

OIG closed an evaluation of FHFA's oversight of two mission-related requirements for long-term advances—a community support requirement for advances with original maturities greater than one year and a residential housing finance requirement

for advances with original maturities greater than five years. OIG's review identified instances in which FHFA's implementation of the community support requirement fell short of the Agency's regulatory requirements. In particular, FHFA's regulations require the Agency to review FHLBank members approximately every two years to determine whether they meet community support standards to FHFA's satisfaction. However, FHFA failed to conduct one biennial review cycle and failed to include all FHLBank members subject to community support review in its most recent review cycle. Although these deficiencies have not been fully remediated, FHFA has represented to us that it is in the process of addressing them. OIG intends to monitor developments on these issues and will subsequently test whether FHFA has fulfilled its responsibility to remediate deficiencies. We also conducted a limited review of FHFA's oversight of the residential housing finance requirement and found no material noncompliance.

### **FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive (EVL-2015-004, March 11, 2015)**

FHFA has established a delegated approach to managing the Enterprises' operations. For this governance model to succeed, FHFA must be confident that the Enterprises' directors and board committees are fulfilling their delegated responsibilities. This evaluation report reviewed the process used by Fannie Mae's Audit Committee in September 2013 to select a new Chief Audit Executive (CAE), a duty delegated to it by FHFA under the conservatorship, and assessed whether the process was sufficiently robust to satisfy FHFA that the Audit Committee was properly executing its risk oversight function.

Effective corporate governance is a critical element of operational risk management. The Audit Committees

of the boards of directors of the Enterprises have frontline governance responsibilities, which include oversight of the Internal Audit functions. At Fannie Mae, the CAE directs the Internal Audit Department, which is a critical element of Fannie Mae's risk management controls. Pursuant to the Sarbanes-Oxley Act of 2002 and as expressly codified in Fannie Mae's governance documents, its Internal Audit function is tasked with providing independent, objective assurance of the Enterprise's governance, risk management, and control processes.

OIG found that the process used by Fannie Mae's Audit Committee to select a candidate to fill the important and challenging CAE position was haphazard. We found that the numerous governance failures of the Fannie Mae Audit Committee with respect to the CAE selection and management of his conflicts called into question whether that Committee sufficiently understood its governance obligations under the law and the conservatorship and was prepared to responsibly exercise its fiduciary duties. Absent diligence and commitment by all members of the Audit Committee to exercise their delegated oversight responsibilities, we cautioned that FHFA's continued reliance on that Committee was questionable.

OIG recommended that FHFA: (1) implement a sufficiently robust internal communications process to ensure that the FHFA Director is informed of significant issues and concerns that require the Director's decision; (2) require the Audit Committee to hold meetings related to its oversight responsibilities and fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting; (3) conduct a comprehensive evaluation of the Audit Committee's effectiveness and assess the adequacy of the criteria and processes Fannie Mae's Board of Directors uses to populate each board committee and rotate committee membership; and (4) direct the Audit Committee to

align its meetings to address priority issues and risks. FHFA agreed with these recommendations.

### **Women and Minorities in FHFA's Workforce (EVL-2015-003, January 13, 2015)**

On March 24, 2014, nine members of the House of Representatives asked OIG to conduct a review of diversity and related workplace issues at FHFA. Similar requests were sent to the Consumer Financial Protection Bureau, Treasury, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the National Credit Union Administration, and the Securities and Exchange Commission (SEC).

To address the request, OIG analyzed workforce and diversity data available from FHFA for the period of 2011-2013, including performance rating results, promotions for minority and female employees, and employee satisfaction results. In the course of this evaluation, OIG found that the Agency did not have an adequate human resources data collection system with which to provide detailed information necessary to conduct certain analyses. Where FHFA's human resources data systems provided sufficient data, OIG analyzed that data. FHFA is in the process of transitioning to a new data system that Agency officials said will improve the quality of the data.

OIG also reviewed the operations of the Office of Minority and Women Inclusion (OMWI) and its role within the Agency. OIG found that OMWI had carried out statutorily mandated reporting requirements, conducted diversity training, and initiated a number of other efforts to increase diversity. However, FHFA has not acted on some of OMWI's proposals concerning diversity and workforce issues.

OIG recommended that FHFA: (1) test the new human resource system to ensure that it will provide data sufficient to enable the Agency to perform comprehensive analyses of workforce issues; (2) regularly analyze Agency workforce data and

assess trends in hiring, awards, and promotions; (3) adopt a diversity and inclusion strategic plan; and (4) research opportunities to partner with inner-city and other high schools, where feasible, to ensure compliance with applicable law.

FHFA agreed with OIG’s recommendations and identified specific actions to address them. FHFA expects implementation of its new Human Resource Information System (HRIS) to be complete by September 2015. FHFA also represented that OMWI and the Office of Human Resources Management (OHRM) will review FHFA’s workforce data in 2015 and expand the analysis after implementation of the new HRIS is complete. FHFA also agreed to adopt a diversity and inclusion strategic plan by September 30, 2015. Finally, OMWI and OHRM will meet to explore partnering with inner-city and other high schools.

**Impact of the Federal Reserve’s Quantitative Easing Programs on Fannie Mae and Freddie Mac (EVL-2015-002, October 23, 2014)**

OIG assessed the effects of the Federal Reserve’s Quantitative Easing (QE) programs on the

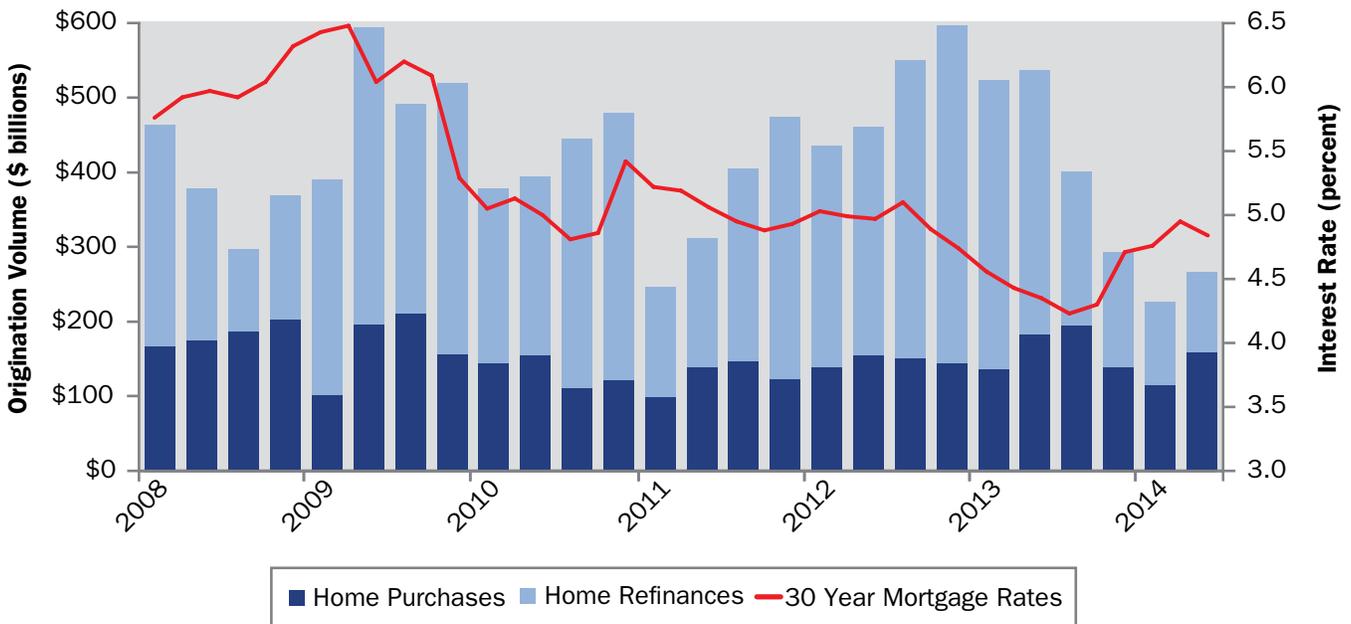
Enterprises’ recent financial performance and the potential implications for the Enterprises of the Federal Reserve’s December 2013 decision to reduce its **mortgage-backed securities (MBS)** purchases.

As part of its effort to respond to the financial crisis and its aftermath, the Federal Reserve purchased over \$2.3 trillion of the Enterprises’ MBS through 2013 under its three QE programs and related initiatives. The Federal Reserve initiated the QE programs to, among other things, lower interest rates and thereby stimulate growth in the housing markets and the broader economy.

The QE programs likely contributed considerably to lower long-term mortgage rates, resulting in a mortgage refinancing surge from 2009 through mid-2013. In 2012 and 2013, the Enterprises benefited financially from the combination of the surge in mortgage refinancings and a sharp increase in their MBS guarantee fee rates (see Figure 2, below).

From 2011 to 2013, the Enterprises realized a \$4 billion increase in annual guarantee fee revenue from new single-family MBS issuances, most of

**Figure 2. Volume of Mortgage Origination and Refinancing 2008 to 2014**



which is attributable to refinanced mortgages. The Enterprises should generally expect to benefit from the increased guarantee fee revenue over the lifetime of the securities but are subject to certain risks. For example, an improving economy and the Federal Reserve's decision in late 2013 appear to have contributed to higher mortgage rates, which, in turn, contributed to significant reductions in the Enterprises' guarantee fee revenues on MBS issued in 2014. The Federal Reserve's continued tapering and the eventual reduction of its massive MBS portfolio could have an adverse impact upon the Enterprises' financial performance. Under other scenarios, however, an improving economy and higher home prices could be of benefit to the Enterprises' financial performance. FHFA has a responsibility to monitor these issues and risks, as well as their implications for the Enterprises.

#### **Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities (EVL-2015-001, October 6, 2014)**

This report evaluated FHFA's policies and practices for creating and maintaining examination documents and workpapers in compliance with the Federal Records Act and FHFA's records management policy.

The report reviewed the documentation of 28 targeted examinations conducted by FHFA's Division of Enterprise Regulation (DER) in 2013. In each case, OIG found that DER staff complied with the Agency's recordkeeping policies and procedures. However, OIG also found that DER's recordkeeping practices have limitations that impede the efficient retrieval of workpapers by FHFA examiners, other FHFA personnel, and outside oversight entities such as OIG. Specifically, OIG found that DER maintains no index or directory for the universe of workpapers, examination teams within DER use different document naming conventions, and electronic folders do not adhere to a cohesive, common structure.

Accordingly, OIG recommended that DER adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between DER teams. FHFA agreed to perform a cost-benefit analysis on implementation of the recommendation.

## **Recommendations**

A complete list of OIG's audit and evaluation recommendations is provided in Appendix B.

## **Investigations: Criminal, Civil, and Administrative**

Depending on the type of misconduct uncovered during OIG investigations, the investigations may result in criminal indictments, civil complaints, trials resulting in judgments and decisions, administrative sanctions and decisions, and/or negotiated plea or settlement agreements. Criminal charges filed against individuals or entities may result in plea agreements or trials to verdict, incarceration, restitution, fines, and penalties; civil claims can lead to settlements or verdicts with restitution, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal mortgage programs. During the semiannual period, OIG special agents conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 72 individuals, the conviction of 72 individuals, and 74 sentencing, as well as the imposition of fines and restitution awards. In several investigations, OIG investigative counsels were appointed as Special Assistant U.S. Attorneys (SAUSAs) and prosecuted the criminal cases. Figure 3 (see page 17) summarizes the results obtained during this reporting period from our investigative efforts.

OIG has developed and intends to further strengthen close working relationships with other

law enforcement agencies, including DOJ and U.S. Attorneys' offices; the Secret Service; the FBI; HUD-OIG; the Federal Deposit Insurance Corporation Office of Inspector General; IRS-CI; SIGTARP; the Financial Crimes Enforcement Network; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae's Mortgage Fraud Program and with Freddie Mac's Fraud Investigations Unit.

OIG also develops public-private partnerships where appropriate. We delivered 29 fraud awareness briefings to different audiences to raise awareness of OIG's law enforcement mission and of fraud schemes targeting FHFA programs.

## Investigation Highlights

Although much of the investigative work during this reporting period remains confidential, there have been significant public developments in a number of OIG investigations. We now discuss some of these developments, categorized by subject matter. For a description of additional recent investigative developments, see Appendices E-K.

### Investigations: Civil Cases

During the reporting period, OIG continued to actively participate in the Residential Mortgage-Backed Securities (RMBS) Working Group established by the President in 2012 to investigate those responsible for misconduct contributing to the financial crisis through the pooling of mortgage loans and sale of RMBS. The Working Group is a collaborative effort of dozens of federal and state law enforcement agencies. Among other things, we have briefed other law enforcement agencies on the operation of the RMBS market, reviewed evidence produced by various parties for

**Figure 3. Criminal and Civil Recoveries from October 1, 2014, Through March 31, 2015**

|                    | Criminal Investigations | Civil Investigations |
|--------------------|-------------------------|----------------------|
| Fines <sup>a</sup> | \$638,581               | \$-                  |
| Settlements        | \$-                     | \$-                  |
| Restitutions       | \$34,034,537            | \$-                  |
| <b>Total</b>       | <b>\$34,673,118</b>     | <b>\$-</b>           |
| Charges            | 72                      |                      |
| Convictions        | 72                      |                      |
| Sentencings        | 74                      |                      |

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

members of the Working Group, assisted with witness interviews, and provided strategic litigation advice.

We continue to work closely with U.S. Attorneys' offices around the country and with state attorneys general to investigate allegations of fraud committed by financial institutions and individuals. Since the inception of the working group, DOJ has negotiated civil settlements worth \$32.65 billion (FHFA also negotiated a settlement with JPMorgan for \$4 billion). OIG's investigative efforts in support of the RMBS Working Group are ongoing.

### Investigations: Criminal Cases

OI is staffed by a team of highly trained special agents, prosecutors, and investigative support staff who conduct investigations related to programs overseen by FHFA. Collectively, they encompass OIG's statutory law enforcement component, and they investigate criminal allegations throughout the United States. In addition to the investigative outcomes described in Figure 3 (see above), OI supported six federal and local criminal trials. Six OIG investigative counsels are SAUSAs appointed by DOJ and are serving in judicial districts across the

United States. OIG SAUSAs work closely with U.S. Attorneys' offices to develop cases for trial and try the cases to verdict.

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

### **Condo Conversion and Builder Bailout Schemes**

In these types of schemes, sellers or developers typically solicit investors with good credit who want low-risk investment opportunities by offering deals on properties with no money down and other lucrative incentives, such as cash back and guaranteed and immediate rent collection. The sellers fund these incentives with inflated sales prices set by complicit property appraisers. The fraudsters conceal the incentives and the true property values from the lenders, defrauding them into making loans that are much riskier than they appear. When the properties go into foreclosure, lenders suffer large losses.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix E for a summary of all publicly reportable investigative outcomes in this category.)

#### **Cay Clubs Real Estate Ponzi Scheme, Key West, Florida**

A joint OIG investigation with IRS-CI, the U.S. Immigration and Customs Enforcement's Homeland Security Investigations, and the SEC found evidence that Cay Clubs Resorts and Marinas, which operated 17 resort-style hotels/condominiums in the United States, was allegedly a Ponzi and securities fraud

scheme. Because the scheme needed a constant inflow of cash from new buyers to keep afloat, its operators allegedly lured those new buyers with large purchase incentives and allegedly gave buyers leaseback incentives and \$35,000 furniture packages but concealed these incentives from lenders and from the Enterprises. The operators also allegedly used undisclosed insider sales to fraudulently pump sales volumes and prices, lure more buyers, and inflate prices.

The scheme is estimated to have defrauded more than \$300 million from 1,400 investors, FDIC-insured banks, and the Enterprises, which lost \$7 million. After the scheme collapsed, the owners and principal executives, Dave Clark and Cristal Coleman, fled the country. Criminal charges were filed against Clark and Coleman, who were subsequently apprehended and are incarcerated pending trial.

Two insiders, Barry Graham, director of sales for Cay Clubs, and Ricky L. Stokes, director of investor relations, were charged with criminally conspiring to fraudulently inflate the prices of Cay Clubs units through insider sales. The complaint alleged that Graham and other insiders specifically purchased units from Cay Clubs without disclosing their affiliation with Cay Clubs and used the insider condominium purchases to "set the bar" for subsequent artificially inflated appraisals and on marketing materials to make it appear to investors that the Cay Clubs units were rapidly increasing in price.

During this reporting period, defendants Graham and Stokes pled guilty and each was sentenced to 5 years in prison followed by a 3-year term of supervised release.

#### **\$20 Million Straw Buyer Fraud in Florida**

A joint OIG and HUD-OIG investigation identified evidence of a scheme by a number of individuals to identify residential real estate properties in and

around Miami-Dade County, which were purchased using **straw buyers** and fraudulent mortgages.

The principal operators allegedly recruited mortgage brokers, straw buyers, and others to create fraudulent mortgage applications and false supporting documents. They used some of the mortgage proceeds to cover the straw buyers' closing costs, pay kickbacks to scheme participants, and make initial mortgage payments, and pocketed the remainder of the funds. When many of these properties went into foreclosure, the scheme collapsed, defrauding lenders of almost \$20 million. The Enterprises together lost more than \$10.8 million.

During this reporting period, eight of the conspirators pled guilty and were sentenced to prison terms ranging from 51 months to home confinement and to pay restitution. Three conspirators, who declined to plead, were found guilty on all counts after a jury trial.

### **Fraud Committed Against the Enterprises, the FHLBanks, or FHLBank Member Institutions**

Investigations in this category involve a variety of schemes that target Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix F for a summary of all publicly reportable investigative outcomes in this category.)

### **Identity Theft by a Fannie Mae Insider, Dallas, Texas**

A joint OIG investigation with the Secret Service and the U.S. Attorney's Office for the Northern District of Texas, based on a whistleblower tip, found evidence that a Fannie Mae employee used her lawful access to Fannie Mae records to steal PII of more than 1,000 Fannie Mae customers and others, which she provided to two individuals, Anthony Minor and Tilisha Morrison. These individuals, in turn, recruited co-conspirators to walk into banks and withdraw cash from the accounts of Fannie Mae customers whose PII had been stolen.

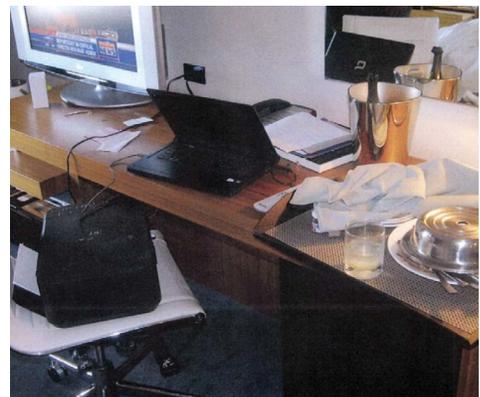
Minor was arrested in a Dallas hotel room, which he had paid for with a fake credit card manufactured using the stolen PII. A search of his hotel room found fake identity documents, counterfeit checks, a computer containing templates for fake government documents, and a \$900 bottle of Dom Pérignon. In September 2014, a jury convicted him of conspiracy, bank fraud, and several other crimes. He was



Morrison, with Minor over her left shoulder, withdrawing cash from an ATM.



\$900 bottle of Dom Pérignon purchased with stolen credit card.



Equipment seized at the hotel during the arrest of Minor.

sentenced during this reporting period to 16 years in prison and ordered to pay \$88,131 in restitution.

Five other individuals involved in this scheme were also sentenced to prison terms ranging from time served to 4 years.

### **Computer Intrusion by Former Fannie Mae Employee, Virginia**

A joint investigation with SIGTARP, with significant assistance from Fannie Mae's Investigations Division, found evidence that an IT term employee of Fannie Mae, Sathish Kumar Chandhun Rajendran, who had been terminated by Fannie Mae, subsequently used administrator credentials in his possession to repeatedly interfere with Fannie Mae servers and partially disable the CheckMyNPV.com website. That website allowed individuals to check on their eligibility to participate in the Home Affordable Modification Program. His actions caused damage and loss to Fannie Mae in the amount of approximately \$69,000. Rajendran pled guilty to criminal charges and, during this reporting period, was sentenced to 3 years of supervised probation, 50 hours of community service, forfeiture of his laptop computer, ordered to pay \$69,638 in restitution, and agreed to write and publish an online article detailing his offense, its seriousness, the effect on himself and his family, and why others should not engage in similar behavior.

### **Loan Origination Schemes**

Loan or mortgage origination schemes are the most common type of mortgage fraud. These schemes typically involve falsifying buyers' income, assets, employment, and credit profile to make them more attractive to lenders. These schemes often use bogus Social Security numbers and fake or altered documents such as W-2 forms and bank statements to defraud lenders into making loans they would not otherwise make. Typically, perpetrators pocket origination fees or inflate home prices and divert proceeds.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix G for a summary of all publicly reportable investigative outcomes in this category.)

### **Falsified Loan Application Scheme in San Diego, California**

A joint OIG investigation with the FBI, IRS-CI, and the U.S. Attorney's Office for the Southern District of California found that a mortgage loan officer, who acted as a broker, was part of a conspiracy to defraud mortgage lenders by creating and submitting false loan applications. This conspiracy involved solicitation of borrowers through ads on television and other media, efforts to persuade borrowers to sign blank loan applications, completion of loan applications with false information and documentation to make the applications successful, and submission of the false applications to federally chartered financial institutions, including FHLBank members. As a result of this conspiracy's efforts, the loan officer obtained at least \$2.2 million in mortgage loans through fraud, many of which subsequently **defaulted** and inflicted losses on the mortgage lenders and secondary purchasers, including the Enterprises.

The loan officer, Donald V. Totten, and three members of the conspiracy had previously pled guilty. Defendant Totten was sentenced to 30 months in prison, 3 years of supervised release, and was ordered to pay \$717,496 in restitution. His three co-conspirators, sentenced in February 2015, received prison terms ranging from 4-10 months and terms of supervised release ranging from 3-5 years, and one was ordered to pay restitution of \$25,746.

### **Bogus Home Improvement Schemes in Maryland**

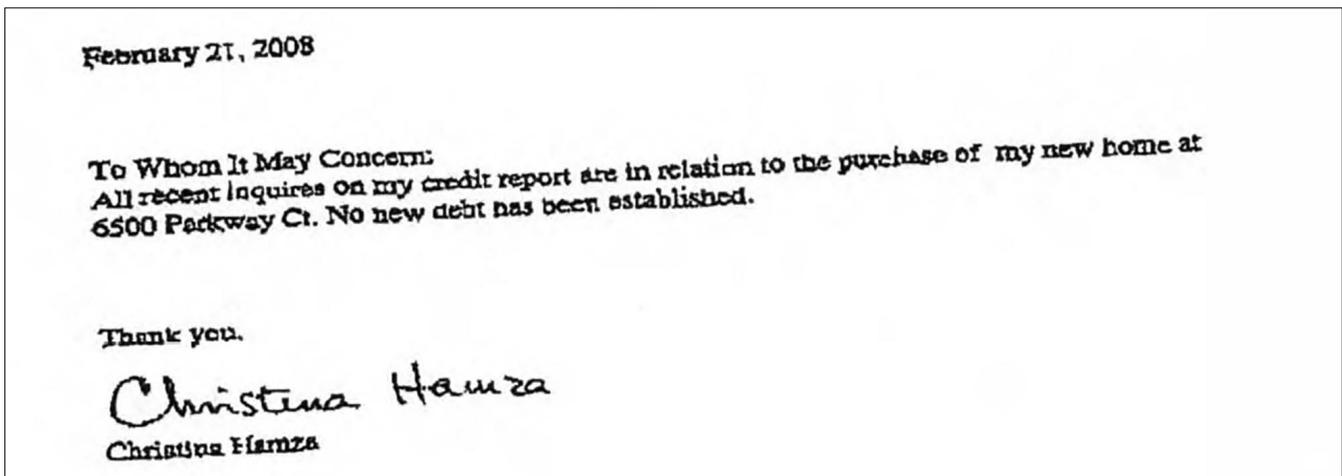
A joint OIG investigation with HUD-OIG, the Department of Homeland Security Immigration and Customs Enforcement, Treasury Office of the Inspector General, and the Secret Service found that

two Maryland real estate agents operated fraudulent schemes in which they and others added the cost of bogus home improvements to mortgages obtained with stolen identities and falsified application documents, diverted the improvement fees garnered to puppet construction companies at settlement, and pocketed the proceeds. One agent used an accomplice to create false credit histories for the stolen identities, and the accomplice falsely reported to credit rating agencies that the false identities received lines of credit.

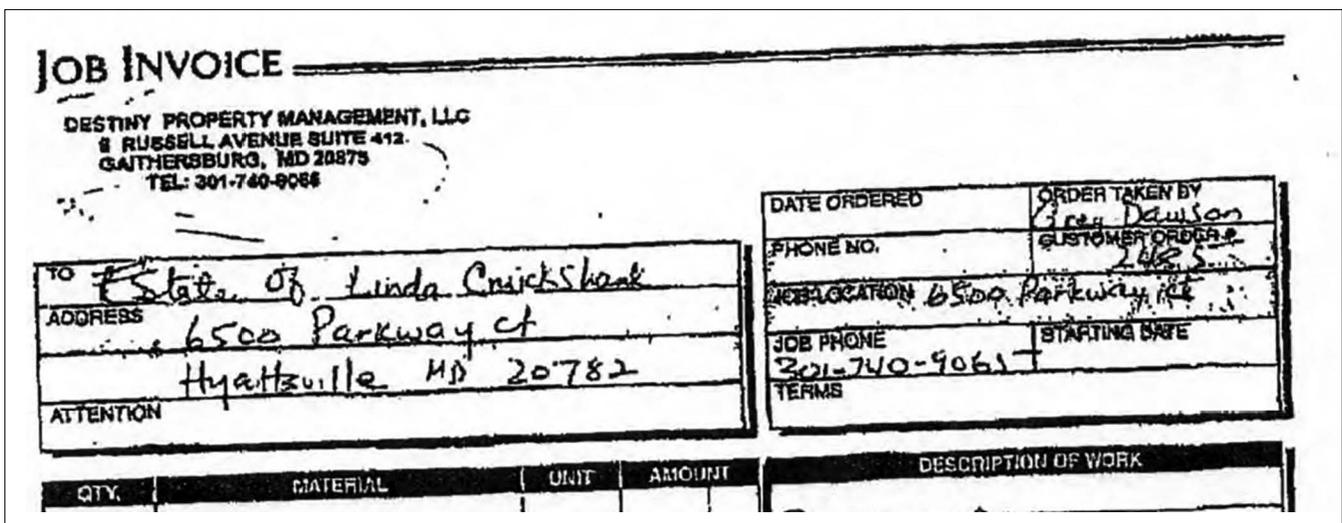
The defendants diverted \$1.3 million in funds from more than \$8.2 million in fraudulently obtained loans. The Enterprises lost more than \$1.2 million,

and the **Federal Housing Administration (FHA)** and conventional lenders lost \$3.5 million.

During the reporting period, the principal defendant, real estate agent Edgar Tibakweitira, was sentenced to 57 months in prison, and real estate agent Phaniel “Peter” Ligate was sentenced to 5 months in prison. (Both had previously pled guilty.) Five other participants in the scheme received sentences ranging from 33 months in prison to a period of home confinement. All seven were ordered to pay various amounts of restitution. In addition, the accomplice who reported false lines of credit, Carmen Johnson, was convicted by a jury.



A letter sent to the lender in fraudulent sale of a property, using stolen identity.



Copy of a false invoice submitted to a settlement company claiming home improvements on a property prior to settlement.

Overall, this investigation resulted in the convictions of 12 people. An OIG SAUSA assisted in prosecuting the defendants.

## Short Sale Schemes

**Short sales** occur when a lender allows a borrower who is “**underwater**” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower intentionally misrepresenting or not disclosing material facts to induce a lender to agree to a short sale to which it would not otherwise agree.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix H for a summary of all publicly reportable investigative outcomes in this category.)

### Short Sale Scheme in California

An OIG joint investigation with IRS-CI found evidence that Minerva Sanchez, a licensed real estate agent, persuaded Agustin Simon, a tax preparer and bookkeeper she represented, that he sell his home in a short sale using her son as the straw buyer. Sanchez, along with Simon and the straw buyer, made misrepresentations to financial institutions,

including false statements that the transaction was “arm’s length” and false statements concerning the parties’ hidden agreement that the seller would provide the straw buyer with purchase money for the short sale and ultimately regain ownership of his home following the short sale. Simon was sentenced to 15 months’ incarceration, 60 months of supervised release, and was ordered to pay \$421,372 in restitution joint and severally. Sanchez was sentenced to 21 months in prison, 36 months of supervised release, and was ordered to pay \$421,372 in restitution joint and severally. In addition, a final order of forfeiture was issued for the property involved in the transaction.

### Sale Scheme in Northern Illinois

An OIG joint investigation with the FBI found evidence that a licensed attorney allegedly worked with a real estate agent and a straw buyer to obtain bank approval for a fraudulent short sale using a falsified HUD-1 Settlement Statement and a false non-arm’s length transaction affidavit. After the short sale transaction closed, the lawyer directed the straw buyer to deed the property into a trust controlled by the lawyer. Both the lawyer and the real estate agent allegedly made material false statements to a Freddie Mac investigator in connection with this short sale transaction.



The Simon property put into short sale, which was ultimately forfeited.

During this reporting period, the lawyer pled guilty to wire fraud affecting a financial institution and the real estate agent was charged via a superseding information with wire fraud affecting a financial institution.

### **Short Sale Scheme in New Jersey**

An OIG joint investigation with the New Jersey Office of the Attorney General Division of Criminal Justice found evidence of a conspiracy by three individuals and an entity controlled by one of the individuals to defraud lenders of more than \$1.2 million in a short sale flipping scheme involving four properties. Among other things, individuals allegedly made fraudulent misrepresentations on uniform residential loan applications and settlement forms and omitted material facts, including the existence of straw buyers and an undisclosed financial interest in the transactions.

During this reporting period, two of the individuals were sentenced to probation terms and one was ordered to pay restitution of \$20,000. A third pled guilty to first degree money laundering, and an entity he controlled and used to facilitate the fraud pled guilty to second degree theft by deception.

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

These schemes prey on desperate homeowners. Businesses advertise that they can secure loan modifications, provided that the homeowners pay significant **upfront fees**. Typically, these businesses take little or no action, leaving homeowners in a worse position.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix I for a summary of all publicly reportable investigative outcomes in this category.)

### **Six Indicted in Utah Loan Modification Case**

A joint OIG investigation with SIGTARP, IRS-CI, the FBI, and the Office of Inspector General Board of Governors of the Federal Reserve System Consumer Financial Protection Bureau found evidence that more than 10,000 struggling homeowners were approached by a Utah telemarketing operation to use the services of lawyers who allegedly had a 90% success rate in obtaining loan modifications and purportedly offered a money-back guarantee. Victim homeowners were led to believe that the lawyers would complete the applications for loan modifications. In some instances, customers lost their homes to foreclosure when the loan modifications were not obtained.

On February 25, 2015, six individuals were named as defendants in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering.

### **California Foreclosure Delay Scheme**

A joint OIG investigation with the FBI found evidence of a foreclosure-delay/eviction-delay scheme involving at least 237 **bankruptcies**, including homeowners whose mortgages were owned by Fannie Mae. The scheme allegedly targeted distressed homeowners by promising to delay foreclosures and evictions for up to 36 months in exchange for an initial cash payment and subsequent monthly payments. As part of this scheme, the conspirators allegedly caused a series of fraudulent bankruptcies to be filed to delay the foreclosures and evictions, and false deeds of trust to be recorded.

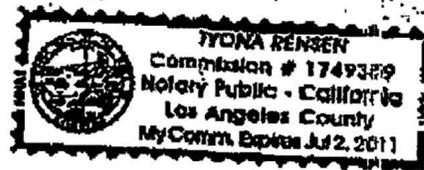
In December 2014, one conspirator was sentenced to 120 days' incarceration or electronic monitoring, 5 years of supervised release, and ordered to pay a

STATE OF CALIFORNIA  
COUNTY LOS ANGELES

On December 1<sup>st</sup>, 2007 before me Tyona Ransen, notary public, personally appeared MUNIT ALI personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacities, and by their signatures on the instrument the persons, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature Tyona Ransen



Copy of a forged signature and notary stamp used by conspirators to record false deeds.

small fine. In January 2015, another conspirator pled guilty to conspiracy and was sentenced to 30 days' imprisonment and 3 years of supervised release.

### Property Management and REO Schemes

The wave of foreclosures following the housing crisis left the Enterprises with a large inventory of **real estate owned (REO)** properties. This large REO inventory has sparked a number of different schemes to either defraud the Enterprises, who use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix J for a summary of all publicly reportable investigative outcomes in this category.)

#### Fraudulent REO Scheme Charged in Chicago

An OIG investigation found evidence that Scott Goldstein, who claimed to be the CEO of a venture capital firm, marketed his services to sell Enterprise REO properties at significantly reduced prices. Goldstein allegedly advised investors that their investments in REO properties

were low-risk and would earn short-term returns as high as double the amount invested and he allegedly fabricated documents on Freddie Mac letterhead claiming to have access to Freddie Mac's REO properties through a "10 Block" program. Goldstein, however, was not authorized to sell Freddie Mac's REO properties and neither Enterprise has a "10 Block" program.

In December 2014, Goldstein was indicted for wire fraud and mail fraud in Illinois.

#### False REO Escrow Scheme, California

A joint OIG investigation with the Stanislaus County District Attorney's Office found evidence that two escrow companies falsely claimed to have the right and authority to sell REO properties owned by the Enterprises at significant discounts. These companies referred potential purchasers to legitimate Fannie Mae and Freddie Mac websites to select REO properties and then allegedly directed these purchasers to deposit funds with the escrow companies and misrepresented that these funds would be used to purchase REO properties at a discount.

In December 2014, an owner of one of the escrow companies was charged in a criminal complaint with grand theft and commercial burglary.

### Adverse Possession Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties.

Below, we provide some highlights of OIG investigative work during this reporting period in this category. (See Appendix K for a summary of all publicly reportable investigative outcomes in this category.)

#### Deed Theft Scheme in California

An OIG investigation found evidence that 12 California properties, of which 10 were owned by the Enterprises, were stolen by individuals who recorded phony deeds. Three individuals allegedly identified properties that were owned free and clear without mortgages or other encumbrances, recorded fake deeds, and sold the properties using the internet and other means of remote communication to conceal their identities and the fraud. During the investigation, OIG alerted the four largest title **insurance companies** about the scheme to prevent further recording of false deeds.

During this reporting period, two individuals, Mazen Alzoubi and Daniel Deaibes, were arrested and charged with mail fraud. A third individual, Mohamad Daoud, was arrested in December 2014 while attempting to flee the country. Deaibes has since pled guilty in March 2015.

As a result of this investigation, OIG recommended to FHFA that the GSEs strengthen the requirement they impose on their property servicers to give notice at the first indication of any attempt to obtain control of GSE-owned property.

### Recidivist Squatter and “Sovereign Citizen” Imprisoned in Tennessee

A joint OIG investigation with the Shelby County Sheriff’s Office found evidence that a self-proclaimed “sovereign citizen,” with prior convictions for squatting on and claiming ownership of HUD and Fannie Mae-owned properties, was occupying a Fannie Mae property in Memphis, Tennessee for which he had submitted a fake quit claim deed.

This “sovereign citizen” pled guilty to theft of property in October 2014 and was sentenced to 8 years in prison.

### Investigations: Administrative Actions

Many OIG investigations result in administrative referrals to other entities for action based upon the results of OI’s investigative work. For example, a guilty plea of participation in a bank fraud scheme by a licensed real estate agent or attorney or certified public accountant may result in a referral to a state licensing body for disciplinary actions. By the same token, participation by a real estate professional in mortgage fraud may result in a referral to HUD for possible suspension or debarment from participation in federal mortgage programs. A summary of OIG’s referrals during the reporting period is captured in Figure 4 (see below).

OI also investigates allegations of administrative misconduct by FHFA employees and contractors. The results of such allegations are reported to FHFA or other agencies with jurisdiction for further action.

**Figure 4. Administrative Actions from October 1, 2014, Through March 31, 2015**

| Administrative Actions                          |     |
|-------------------------------------------------|-----|
| Suspension/Debarment Referrals                  | 150 |
| Referral to FHFA Suspended Counterparty Program | 59  |

## Regulatory Activities

Pursuant to the Inspector General Act, OIG is authorized to assess whether proposed legislation, regulations, and policies related to FHFA are efficient, economical, legal, and susceptible to fraud and abuse. During the semiannual period, FHFA sought OIG review on three final rules it published, two proposed rules, a draft policy, and an advisory bulletin, and OIG provided substantive comments on two:

- **Proposed Rules.** FHFA sought OIG review of a preliminary draft proposed rule concerning indemnification payments, for which it had not sought public notice and comment. Because this preliminary draft has not been published in the *Federal Register* and FHFA continues to consider OIG's comments as it revises its draft rule, this comment process is ongoing and disclosure could adversely affect internal Agency deliberations. OIG will report on the substance of its comments once the Agency publishes the draft proposed rule.
- **Advisory Bulletin.** FHFA promulgated an advisory bulletin (AB 2015-01) on *FHLBank Fraud Reporting* (published on FHFA's website on February 12, 2015). On review of that bulletin, OIG noted that it contained no mechanism to notify OIG simultaneously with FHFA upon the suspicion or discovery of fraudulent activity and alerted FHFA of that omission. FHFA acknowledged the value of simultaneous reporting and notified the FHLBanks that FHFA would "automatically notify FHFA-OIG by email when an FHLBank posts a document to the immediate notifications or SAR [suspicious activity report] filing notifications folder."

During the last reporting period, OIG reported that it considered the applicability of the government-wide suspension and debarment program and

provided FHFA with its assessment. FHFA responded that it disagreed with OIG's assessment that the government-wide suspension and debarment program applied to it and declined to follow FHFA's recommendation to implement it. FHFA continued to refrain from implementing that program during this period.

OIG previously reviewed the applicability of the Program Fraud Civil Remedies Act of 1986 (PFCRA) to FHFA and opined to FHFA that it was subject to PFCRA. At the beginning of the last reporting period, FHFA responded that it planned to implement PFCRA and/or issue draft regulations; no implementation or draft regulations occurred during this reporting period or the prior reporting period.

## Suspension of Counterparties Referrals

FHFA has adopted a Suspended Counterparty Program under which it issues "suspension orders directing the regulated entities to cease or refrain" from doing business with counterparties (and their affiliates) who were previously found to have "engaged in covered misconduct." Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, covered misconduct means:

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

During this reporting period, OIG made 59 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program.

## Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system and recent history has shown that financial distress at the Enterprises and deteriorating conditions in U.S. housing and financial markets threatened the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy and decisions were made to invest \$187.5 billion in the Enterprises. The continuing outsized role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. A fundamental part of OIG's mission in protecting taxpayers is independent and transparent oversight of Agency programs and operations, which both acts to hold responsible individuals accountable and identifies lessons to be learned for the future.

Our focus on risk-based oversight demands that we are sufficiently nimble to evaluate the sufficiency of existing controls to mitigate known risks and to identify new and emerging risks and the systems in place to control those risks. We have created an internal resource, ORA (discussed above), to assist in those efforts, and we actively cultivate different constituencies, including potential whistleblowers, Agency officials, members of Congress, and the wider oversight community, and forge public and private partnerships to further our understanding of critical risks.

Highlights of our efforts during this reporting period include:

### Anonymous Hotline

OIG actively promotes its anonymous hotline in multiple ways, including its website, posters, emails targeted to FHFA and GSE employees, and public reports. During this reporting period, the hotline received 1,117 contacts, which included: reports of alleged misconduct that were referred to OI for potential civil and/or criminal investigation; reports of alleged wrongdoing in connection with other agencies that were referred to the appropriate resource; requests for assistance on housing-related issues; and complaints on OIG-related issues.

### Close Coordination with Other Oversight Organizations

OIG shares oversight of federal housing program administration with other federal agencies, including HUD, the Department of Veterans Affairs, the Department of Agriculture, and Treasury's Office of Financial Stability (which manages the Troubled Asset Relief Program); their inspectors general; and other law enforcement organizations. To further the oversight mission, we coordinate with these entities to exchange best practices, case information, and professional expertise. During the reporting period, OIG made numerous presentations to law enforcement agencies, mortgage fraud working groups across the country, and individual federal agencies responsible for investigating mortgage fraud, such as HUD-OIG, the FBI, the Secret Service, and the DOJ Antitrust Division.

We continued our active participation in the coordinated oversight activities during this reporting period:

- **RMBS Working Group.** OIG continued its significant role in the RMBS Working Group. (See discussion at "Investigations: Civil Cases," page 17).

- **CIGIE.** OIG actively participates in several CIGIE committees and working groups.
  - The Inspection and Evaluation Committee continued its work on a pilot “peer review” program for inspection and evaluation units in the inspector general community. The peer review is designed to assess organizations’ work under CIGIE’s Blue Book (January 2012) and to promote credibility of such work by validating the organizations’ work processes and evaluating their objectivity, independence, and rigorous adherence to applicable standards.
  - The Investigation Committee advises the inspector general community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. During this semiannual period, the committee continued coordination with DOJ regarding implementation of the electronic recording policy. Additionally, OIG hosted the Investigations Information Technology Subcommittee, which is comprised of criminal investigators from across the inspector general community. The Inspector General provided opening remarks for the meeting, which focused on the unique aspects of standardizing processes for investigating computer-related crime.
- **Council of Inspectors General on Financial Oversight.** The Council of Inspectors General on Financial Oversight (CIGFO) was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank)** to oversee the Financial Stability Oversight Council (FSOC), which is charged with strengthening the nation’s financial system.

OIG is a permanent member of CIGFO, along with the inspectors general of Treasury, the FDIC, the SEC, and others. By statute, CIGFO audits FSOC each year. This year, OIG is leading the CIGFO audit of FSOC’s monitoring of interest rate risk to the financial system.

### Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak regularly with officials at the FHLBanks and the Enterprises to benefit from their insights; made presentations to industry groups, including the International Association of Financial Crimes Investigators and the Real Estate Alliance of Livermore, California; and focused on fraud trends and emerging schemes in the mortgage industry. We also speak with homeowners’ groups and associations.

### Congress

To fulfill its mission, OIG works in close partnership with Congress and is committed to keeping it fully apprised of our oversight of FHFA. OIG provided information and briefings to key congressional committees and offices. Briefing topics included recommendations from OIG reports and FHFA’s progress in implementing them, themes emerging in OIG’s body of work, OIG’s organization and strategy, and areas of ongoing work.

Additionally, we endeavor to inform Congress through responses to numerous technical assistance and information requests, as well as replies to formal written inquiries from members of Congress on various topics.



## Section 2: FHFA and GSE Operations

### Overview

In this section, we summarize the role of the GSEs in housing finance, FHFA and its relationship with these GSEs, the 2014 financial results of the GSEs, and selected FHFA and GSE activities.

### The Enterprises

The Enterprises are publicly held financial institutions that were created by Congress with dual purposes: to enhance the liquidity and stability of the U.S. secondary mortgage market and to affirmatively “facilitate the financing of affordable housing for low- and moderate-income families in a manner consistent with their overall public purposes.”<sup>1</sup> Their charters, drafted by Congress, provide important competitive advantages that, taken together, were viewed by many as implying U.S. taxpayer commitment to prevent default on their financial obligations. Consequently, the Enterprises could issue debt to fund their operations near Treasury rates and thereby assumed dominant positions in the residential housing finance market.<sup>2</sup> Although a number of commentators warned about structural problems within the Enterprises, those concerns went unheeded.

In 2007 and 2008, as the housing crisis intensified, Fannie Mae and Freddie Mac became financially distressed. Their concentrated exposure to U.S. residential mortgages combined with high leverage proved unsustainable in the face of a large nationwide decline in home prices and the associated spike in mortgage defaults. The federal government passed HERA, signed into law on July 30, 2008, which, among many other provisions, temporarily gave Treasury unlimited investment authority in the two Enterprises, created FHFA, and charged it with

responsibility for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, the FHLBanks, and the FHLBanks’ Office of Finance.

Less than two months later, on September 6, 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorships, taking control of the Enterprises to conserve their value, maintain their operations, provide assurances to holders of their debt and mortgage-backed securities (MBS), and lower and stabilize the cost of mortgage finance. Simultaneously, Treasury exercised its authority under HERA “to purchase any obligations and other securities” issued by the Enterprises and began to purchase **preferred stock** pursuant to the Senior Preferred Stock Purchase Agreements (PSPAs) in order to allow the Enterprises to continue their key role in the housing market. Under the PSPAs, Treasury committed to provide funds to the Enterprises as necessary to prevent their liabilities from exceeding their assets, subject to a cap.<sup>3</sup> To date, U.S. taxpayers have invested \$187.5 billion into the Enterprises under these agreements.

### The Enterprises’ Roles in Housing Finance

Fannie Mae and Freddie Mac are limited by their charters to operate in the secondary “conforming” mortgage market. That means that neither Enterprise can lend money to households directly in the primary market, nor deal in mortgages with balances above “**conforming loan limits.**” Conforming loan limits have been adjusted over time, and for 2015, the national limit for single-family properties is \$417,000 but can be as high as \$625,500 in high-housing-cost areas. The charters for both Enterprises authorize them to purchase mortgages with loan-to-value (LTV) ratios that exceed 80% (i.e., the unpaid principal

balance of the mortgage exceeds 80% of the value of the property). If that occurs, the loan must include mortgage insurance or another credit enhancement.

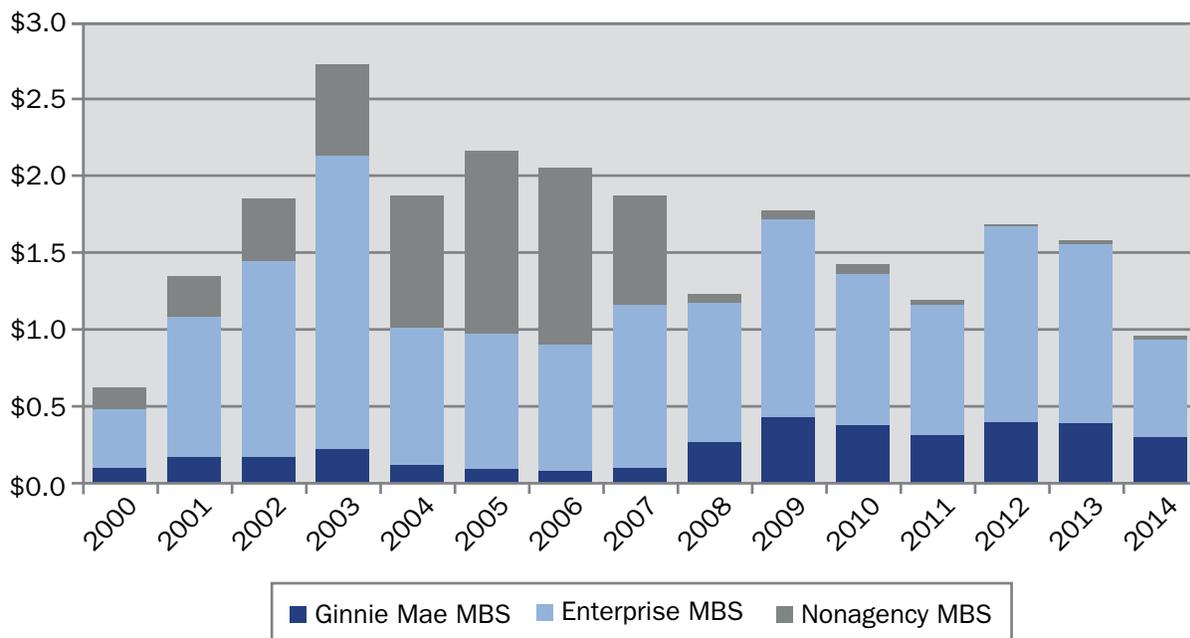
The Enterprises’ activities can be grouped into two broad categories. One category—the credit guarantee business—involves the creation of MBS by purchasing a pool of single-family conforming mortgages from originators—typically banks, **credit unions**, mortgage companies, and other financial institutions—and packaging them into securities that receive cash flows from the mortgage pools. Residential loans purchased by the GSEs from loan originators create liquidity for loan originators who can then make additional loans. Fannie Mae or Freddie Mac guarantees the investors in these MBS the timely payment of principal and interest regardless of defaults and losses on the underlying loans in the pool. In return for this guarantee, the Enterprises receive a monthly “guarantee fee” out of the borrower’s interest payment.

The second category—the portfolio investment business—involves holding and financing assets on their balance sheets, including whole mortgages, their own MBS, MBS purchased from others, and fixed-income securities. Both GSEs use financial derivatives, such as **interest rate swaps**, to help manage the market risk associated with their investment portfolios.

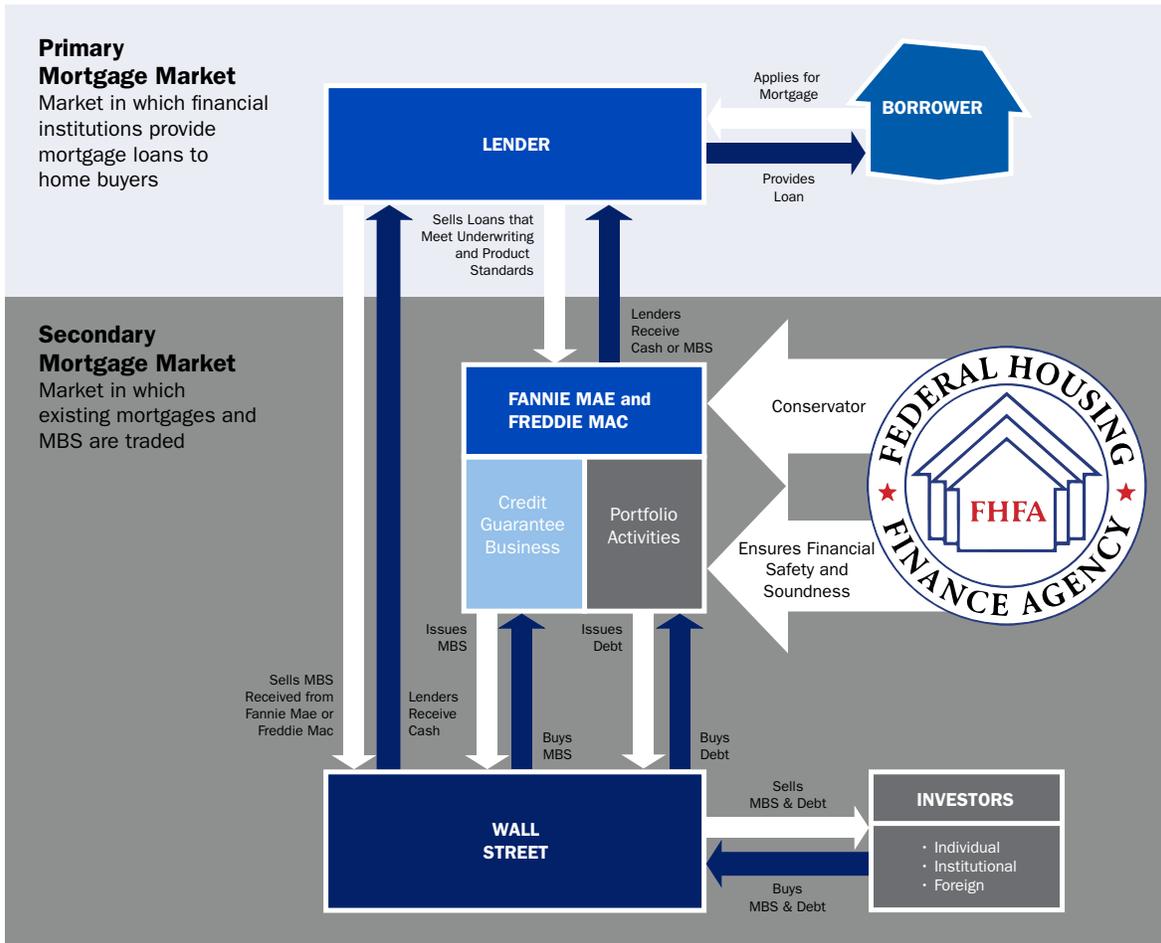
### Enterprises’ Market Share of the Secondary Mortgage Market

Since entering conservatorships in September 2008, the Enterprises have bought and guaranteed approximately three out of every four mortgages originated in the United States. After losing market share to **nonagency** competitors from 2004 through 2007, the Enterprises have regained dominant positions in the residential housing finance market (see Figure 5, below).<sup>4</sup> Consequently, taxpayers face considerable financial risks and exposure from their

**Figure 5. Primary Sources of MBS Issuances from 2000 to 2014 (\$ trillions)**



**Figure 6. Overview of FHFA's and the Enterprises' Roles**



activities, given that Treasury effectively guarantees their financial obligations.

### **FHFA's Dual Role as Conservator and Regulator of the Enterprises**

On September 6, 2008, FHFA used its authorities granted under HERA to place the Enterprises into conservatorships. Since then it has served a dual role as both conservator and regulator (see Figure 6, above). When FHFA acts in either role, it must balance the inherent tensions between managing the Enterprises as conservator and supervising them as safety and soundness regulator.

As conservator, FHFA possesses all rights and powers of any stockholder, officer, or director of the Enterprises. FHFA may operate the Enterprises, conduct all of the Enterprises' business activities, take actions necessary to preserve and conserve their assets and property, put the Enterprises in a sound and solvent condition, and carry on their business. These powers position FHFA to potentially control every aspect of the Enterprises' conservatorships.

FHFA administers the conservatorships through a combination of: communications with the Enterprises' respective boards of directors and management; a multiyear strategic plan for the conservatorships that defines general goals and

initiatives; annual conservatorship Scorecards that focus on the Enterprises’ short-term objectives to further the conservator’s strategic goals; and governance practices and organizational infrastructure that support these activities. According to FHFA, the Director meets regularly with the Enterprises’ respective CEOs to discuss business activities and emerging issues and meets with the boards of directors to review the state of the conservatorships and key business matters. The FHFA Director recently testified that FHFA is involved in “virtually every decision” that Fannie Mae and Freddie Mac make.

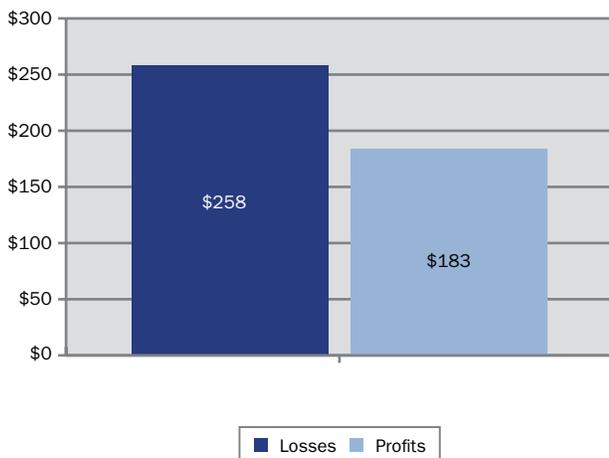
As regulator, the Agency’s mission is to ensure that the Enterprises operate in a safe and sound manner and that their operations and activities contribute to a liquid, efficient, competitive, and resilient housing finance market.<sup>5</sup> FHFA accomplishes its regulatory mission by performing on-site supervisory examinations and off-site monitoring of the Enterprises, issuing regulations and policy guidance, and providing oversight of the Enterprises’ housing mission and goals.<sup>6</sup>

## Enterprises’ Financial Performance

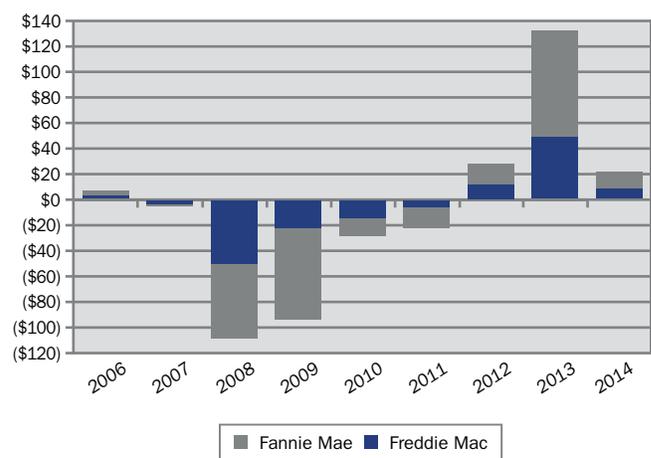
For the years ended December 31, 2008, through December 31, 2011, the Enterprises posted total combined losses of \$258 billion. The Enterprises returned to profitability in 2012 and have remained profitable in 2013 and 2014. However, while their profits for the past three years reached historic levels, they are still less than the Enterprises’ combined losses between 2007 and 2011 (see Figure 7, below).

In 2013, the Enterprises reported record profits of \$132.6 billion in net income; this was followed by lesser profits of \$21.9 billion in 2014 (see Figure 8, below). To be sure, the Enterprises benefitted from improvements in the housing market and declines in their delinquent loans. However, more importantly, the Enterprises’ profitability during these two years was significantly driven by nonrecurring sources, events that they do not expect to occur again in the future—specifically, the release of **valuation allowances** against **deferred tax assets** and settlements of disputed representation and warranty claims, and of legal claims relating to nonagency MBS.

**Figure 7. Enterprises’ Combined Losses from 2007 to 2011 and Combined Profits from 2012 to 2014 (\$ billions)**



**Figure 8. Enterprises’ Annual Net Income (Loss) 2006 to 2014 (\$ billions)**



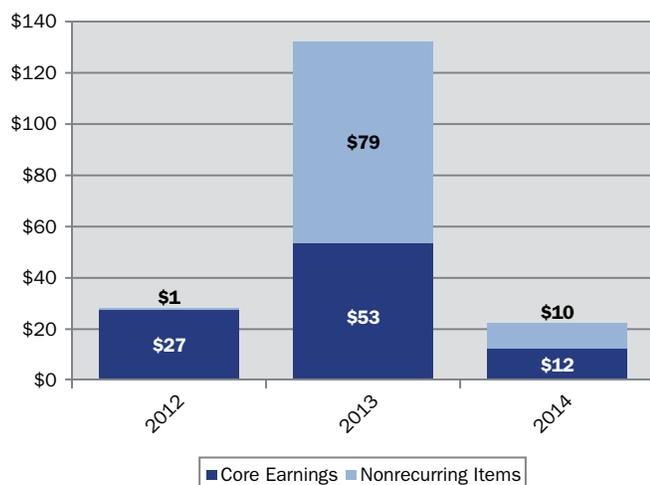
Profits reported by the Enterprises for the year ended December 31, 2014, were significantly lower than in 2013 and slightly lower than in 2012, when they first returned to profitability (see Figure 8, page 33). Fannie Mae reported net income of \$14.2 billion for the year ended December 31, 2014, compared with net income of \$84 billion for the same period in 2013.<sup>7</sup> Freddie Mac reported net income of \$7.7 billion for the year ended December 31, 2014, compared with net income of \$48.7 billion for the same period in 2013.<sup>8</sup>

The significant differences between 2013 and 2014 reported net income are explained largely by nonrecurring events. In 2013, nonrecurring events accounted for \$79 billion—60%—of the \$132.6 billion in net income. Results for 2014 reflected that nonrecurring sources comprised 45% of net income, for a total of \$10 billion, which is a significant decline from the \$79 billion in 2013. Figure 9 (see below) illustrates that nonrecurring sources contributed significantly to the Enterprises’ financial performance in 2013 and 2014.

### Earnings from Business Segments

After nonrecurring events are backed out of the 2013 and 2014 results, profitability in both years

**Figure 9. The Enterprises’ Core Earnings and Nonrecurring Items 2012 to 2014 (\$ billions)**



was driven in significant part by income from the business segments in the Enterprises, primarily from net interest income from the retained portfolios and guarantee fees.

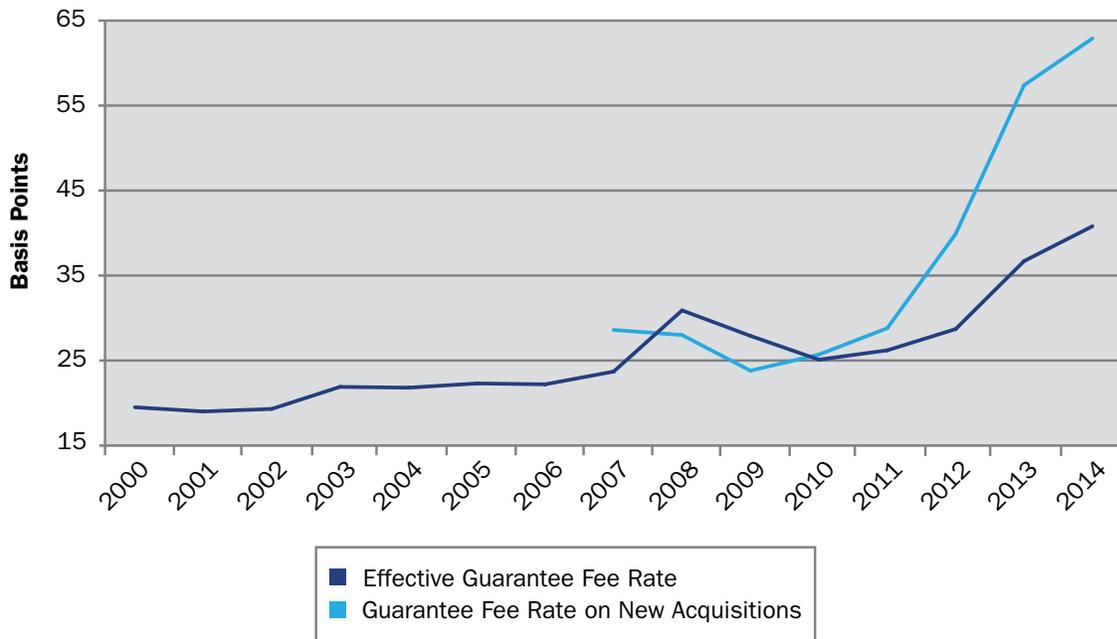
### Net Interest Income

Historically, net interest income from the Enterprises’ retained portfolios has been the most significant driver of revenue. Net interest income is the difference, or spread, between the interest income earned on the assets in the retained portfolio and the interest expense associated with the debt that funds those assets. The Enterprises’ retained portfolios grew over 700% between 1992 and 2008, and net interest income became the largest source of earnings. The Enterprises’ combined retained portfolios were \$192 billion as of the end of 1992 and grew to \$1.6 trillion as of 2008. The PSPAs, however, require the Enterprises to reduce the size of their retained portfolios by 15% per year until they reach \$250 billion by 2018. Fannie Mae’s net interest income for the year ended December 31, 2014, was \$20 billion, compared with \$22.4 billion for the same period in 2013—an 11% decrease; Freddie Mac’s net interest income for the year ended December 31, 2014, was \$14.3 billion, compared with \$16.5 billion for the same period in 2013—a 13% decrease. The decreases in the Enterprises’ net interest income mirror the continued downsizing of their retained mortgage portfolios.

### Guarantee Fees

As the Enterprises’ net interest income has diminished, guarantee fee income has assumed a larger role as the primary driver of the Enterprises’ net income. The Enterprises charge and receive guarantee fees in exchange for their agreement to guarantee the timely payment of principal and interest to investors that purchase their MBS. The guarantee fee (called “management and guarantee fee” by Freddie Mac)

**Figure 10. Fannie Mae's Average Annual Guarantee Fees 2000 to 2014**



covers projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. To calculate the guarantee fee, the Enterprises use proprietary costing models to estimate expected credit losses based on selected loan attributes (such as borrower credit score and LTV) and estimate required capital based on a desired rate of return. As we explained in our 2013 report, the fees set and collected by the Enterprises for their single-family MBS business had not been sufficient to cover the losses from defaulted loans.<sup>9</sup> From 2008 to 2011, the Enterprises posted total combined losses of \$258 billion, the biggest element of which was roughly \$215 billion in losses from single-family credit guarantees.<sup>10</sup>

In 2012, in response to a 2011 legislative mandate and an FHFA directive, the Enterprises nearly doubled their combined average guarantee fees to **50 basis points**. The intent of the then-FHFA Acting Director in requiring the Enterprises to raise their fees was to reduce their dominance in housing finance (by increasing private sector investment) and limit taxpayer risks associated with their activities.

However, on January 8, 2014, FHFA's new Director suspended planned guarantee fee increases, which were scheduled to take effect in March and April 2014, pending further evaluation.<sup>11</sup> In June 2014, FHFA sought public comment on the optimum level of guarantee fees required to protect taxpayers from credit losses on Enterprise MBS and implications for mortgage credit availability.<sup>12</sup> The comment period ended on September 8, 2014.<sup>13</sup> As of the end of the semiannual period, FHFA had not lifted its suspension on guarantee fee increases.<sup>14</sup>

Due to recent guarantee fee increases, Fannie Mae's combined single-family and multifamily guarantee fee income for the year ended December 31, 2014, was \$13 billion, compared with \$11.7 billion for the same period in 2013—an 11.2% increase. Freddie Mac's combined single-family and multifamily guarantee fee income for the year ended December 31, 2014, was \$5.4 billion, compared with \$5.1 billion for the same period in 2013—a 5.6% increase.<sup>15</sup> These increases can be explained by the large volume of loans acquired by the Enterprises in 2008-2013 with higher guarantee fees, which are

gradually replacing the inventory of loans acquired prior to 2008 with lower guarantee fee income.

As the Enterprises continue to reduce the size of their retained investment portfolios over the next few years and the net interest income correspondingly decreases, guarantee fees will become an even more significant driver of earnings. Yet, the Enterprises have cautioned that any income growth from guarantee fees may not completely offset the loss in net interest income from the retained portfolios.

### **Changes in Rates and Other Factors Resulted in Changes to the Fair Value of the Derivatives Portfolios**

The Enterprises, like many financial institutions, use derivatives to **hedge** against various risks, such as fluctuating interest rates and prepayment risks associated with their investments in mortgage loans and mortgage-related securities.<sup>16</sup> They use a variety of derivative instruments, including interest rate swap guarantees, **options**, and short-term default guarantee commitments as an integral part of their risk management strategies.<sup>17</sup> Derivative instruments are recorded at fair value and marked-to-market in the Enterprises' financial statements to reflect changes in the value of these instruments due to changes in, for example, short- and long-term swap rates, interest rates, yield curves, implied volatility, and mortgage spreads. The Enterprises report changes in the value of their derivatives portfolios as fair value gains or losses, and the impact of those changes affects financial performance. For example, Fannie Mae reported fair value gains on derivatives of \$3.3 billion in 2013 and fair value losses of \$5.8 billion in 2014, a swing of more than \$9 billion. Freddie Mac reported fair value gains on derivatives of \$2.6 billion in 2013 and fair value losses of \$8.3 billion in 2014, a swing of roughly \$10.9 billion.<sup>18</sup> Derivative losses in 2014 were caused primarily by long-term interest rate decreases during the year.<sup>19</sup>

## **Treasury's Investments in the Enterprises**

Since the conservatorships began in 2008 through March 31, 2015, the Enterprises have received a total of \$187.5 billion from Treasury as an investment in their preferred stock. As we explain in our white paper, the PSPAs, as amended, commit Treasury to invest as much as the Enterprises needed to cover quarterly net worth deficits from 2010 to 2012, and then for future years, subject to a cap.<sup>20</sup> Each quarter, FHFA determines whether the liabilities of each Enterprise on its financial statement exceed its assets and, upon making such a determination, requests on behalf of that Enterprise a "draw" from Treasury under the applicable PSPA. Fannie Mae last requested a draw from Treasury in 2011, and Freddie Mac last requested a draw in 2012. As of December 31, 2014, Fannie Mae had \$117.6 billion in commitment available (i.e., potential future investments by Treasury), and Freddie Mac had \$140.5 billion in commitment available.

The PSPAs initially required the Enterprises to pay dividends on Treasury's investments at an annual rate of 10%, totaling about \$19 billion per year by 2012, an amount greater than the highest combined annual profit that the Enterprises ever earned prior to 2012. That fixed percentage dividend payment frequently required the Enterprises to draw additional funds from Treasury in order to pay the quarterly dividend back to Treasury, further increasing Treasury's investment. As of December 31, 2012, the Enterprises had paid \$55 billion in dividends.

In August 2012, FHFA and Treasury agreed to a third amendment to the PSPAs that, among other things, replaced the fixed dividend rate the Enterprises were required to pay with a quarterly sweep of every dollar of net worth above an applicable capital reserve amount.<sup>21</sup> The third amendment also reduces the Enterprises' capital

reserve until it is eventually eliminated in 2018.<sup>22</sup> According to Treasury, the amendments would “make sure that every dollar of earnings” the Enterprises generate would be “used to benefit taxpayers,” “support the continued flow of mortgage credit,” and “help expedite the[ir] wind down.”<sup>23</sup> As of March 31, 2015, the cumulative Treasury dividend payments on the senior preferred stock by the Enterprises have exceeded their draws: Fannie Mae has paid Treasury a total of \$136.4 billion and Freddie Mac has paid \$91.8 billion, for a total of \$228.2 billion (see Figure 11, below).<sup>24</sup>

Several pending lawsuits by Enterprise shareholders challenge the legality of the third amendment sweep of all profits to Treasury and are being litigated in federal courts.

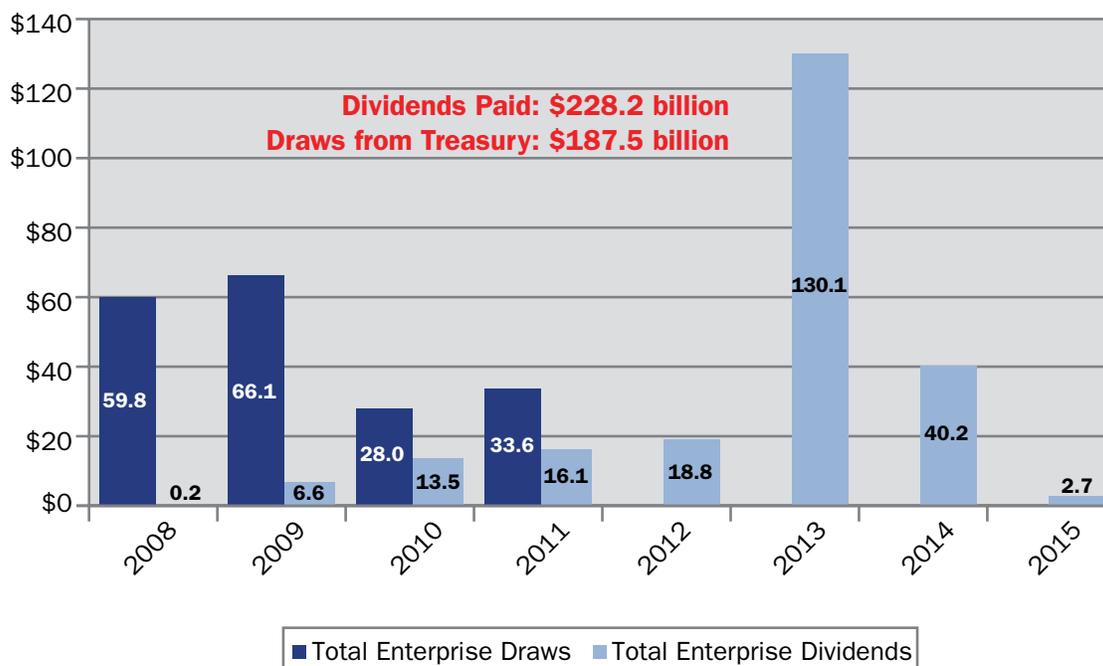
## Additional Government Support for the Enterprises

As we explained in our 2014 evaluation report, the Federal Reserve took a number of steps to spur

economic recovery beginning in 2007, including QE programs.<sup>25</sup> Through its QE programs, the Federal Reserve purchased Treasury securities and MBS in order to lower interest rates and ease credit conditions.

Pursuant to the first QE program, which began in November 2008 and ended in March 2010, the Federal Reserve purchased approximately \$1.1 trillion of Enterprise MBS and \$135 billion of their debt. The second QE program from the Federal Reserve focused on the purchase of longer-term Treasury securities. Beginning in 2011, the Federal Reserve reinvested the proceeds from sales of mature Enterprise MBS and prepaid MBS into new purchases of Enterprise MBS, which it called “reinvestment purchases.” In September 2012, the Federal Reserve began another QE program in which, among other things, it committed to purchasing new MBS at a pace of \$40 billion per month. Between October 2011 and September 2014, the Federal Reserve purchased \$1.3 trillion in Fannie Mae and Freddie Mac MBS.<sup>26</sup> Through the time period of these different programs, the Federal Reserve became the predominant purchaser of Enterprise MBS.<sup>27</sup>

**Figure 11. Enterprises’ Treasury Draws and Dividend Payments Due Under PSPAs (\$ billions)**



Among other things, the Federal Reserve's demand for MBS issuances likely contributed considerably to the significant decline in long-term mortgage interest rates in 2008 through mid-2013, which spurred a dramatic increase in mortgage refinancings. The Enterprises' increased purchases of refinanced mortgages coupled with their higher guarantee fees contributed to their improved financial performance in 2012 and 2013 (the refinanced mortgages subject to increased guarantee fees replaced older mortgages subject to lower fees).<sup>28</sup> In late 2013, however, the Federal Reserve decided to taper its MBS purchases, contributing to an uptick in interest rates and a decline in mortgage refinance volume. Due to the resulting decrease in mortgage refinance purchases and MBS issuances, the Enterprises expected to earn lower guarantee fee revenue on MBS issuances in 2014 compared to 2013.

## Future of the Conservatorships

When then-Secretary of Treasury Paulson announced the conservatorships in September 2008, he explained that the following period of time was meant to be a "time out" where we have stabilized the GSEs," during which the "new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market."<sup>29</sup> The FHFA Director has echoed that view in recognizing that conservatorship "cannot and should not be a permanent state" for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the "time out" period for the conservatorships is now in its seventh year. As we discussed in our recent white paper, FHFA's current strategy is to keep the Enterprises in conservatorship until Congress passes housing reform legislation. Absent congressional action or a change in FHFA's strategy, the conservatorships will continue.<sup>30</sup>

In spite of their record profits in 2013 and 2014, the financial risks that the Enterprises represent under the PSPAs have not been ameliorated. The third amendment to the PSPAs, which requires the Enterprises to sweep all profits to Treasury, prevents them from building up positive capital (save for a small net worth "buffer" that diminishes to zero in 2018). As we explained in detail in our recent white paper, the lack of a capital cushion to buffer losses, combined with decreasing net interest income, uncertain guarantee fee income, and challenges posed by home mortgage rates, home prices, credit standards, and other rates (e.g., short- and long-term swap rates), means that the Enterprises' future financial performance is uncertain.<sup>31</sup>

## FHLBank System

The FHLBanks are GSEs, federally chartered but privately **capitalized** and independently managed by boards of directors. The 12 regional FHLBanks together with the Office of Finance, the fiscal agent of the FHLBanks, comprise the FHLBank System. All FHLBanks and the Office of Finance operate under the supervisory and regulatory framework of FHFA.<sup>32</sup> FHFA's stated mission with respect to the FHLBanks is to provide effective supervision, regulation, and housing mission oversight to promote the FHLBanks' safety and soundness, support housing finance and affordable housing, and facilitate a stable and liquid mortgage market.<sup>33</sup> Figure 12 (see page 39) provides a map of the districts of the 12 FHLBanks. As discussed in the GSE Activities section (see page 46), FHFA recently approved the merger of the Seattle and Des Moines FHLBanks, which will result in 11 FHLBanks.

The FHLBank System was created in 1932 to improve the availability of funds for home ownership, and its mission is to support residential mortgage lending and



to fund residential mortgage loans. During 2014, FHLBank members' borrowing increased, due in part to growth in economic activity, which resulted in a stable environment for debt issuance. Further, during this period, the demand for advances continued to increase due to high member borrowing, particularly by large-asset members. However, as the average balances of advances and investments increased, the yields on interest-earning assets and the average balances of mortgage loans decreased, which contributed to the overall decline in interest income.<sup>41</sup>

The primary source of each FHLBank's earnings is net interest income, which is the interest earned on advances, investments, and mortgage loans, less the interest paid on consolidated obligations, deposits, and other borrowings.<sup>42</sup> Fluctuations in short-term interest rates affect the FHLBanks' interest income and expense because a considerable portion of the FHLBanks' assets and liabilities are either directly or indirectly tied to short-term interest rates.<sup>43</sup>

The FHLBanks' combined net interest income increased from \$3.4 billion in 2013 to \$3.5 billion

**Figure 13. FHLBanks' Net Income for the Years Ended December 31, 2014, and 2013 (\$ millions)**

|                                                     | 2014           | 2013           |
|-----------------------------------------------------|----------------|----------------|
| Interest Income                                     | \$8,032        | \$8,398        |
| Interest Expense                                    | (4,510)        | (4,998)        |
| <b>Net Interest Income</b>                          | <b>3,522</b>   | <b>3,400</b>   |
| Reversal of (Provision for) Credit Losses           | 21             | 19             |
| Other-than-Temporary Impairment Losses <sup>a</sup> | (15)           | (15)           |
| Derivative and Hedging Gains (Losses)               | (148)          | 416            |
| Other Income (Loss)                                 | 180            | (72)           |
| Total Non-interest Expense                          | (1,046)        | (943)          |
| Total Assessments                                   | (269)          | (293)          |
| <b>Net Income</b>                                   | <b>\$2,245</b> | <b>\$2,512</b> |

<sup>a</sup>Private-label MBS accounted for the FHLBanks' other-than-temporary impairment losses for the years ended December 31, 2014, and 2013.

in 2014, as shown in Figure 13 (see below).<sup>44</sup>

The following summarizes trends in key financial indicators for the FHLBanks.<sup>45</sup>

### Decrease in Interest Income

Returns on interest-earning assets are largely derived from interest income on advances, investments, prepayment fees, and mortgage loans. For the year ended December 31, 2014, interest income decreased from \$8.4 billion to \$8 billion—a 4.4% decline compared with the same period in 2013.<sup>46</sup>

### Interest Expense

During the year ended December 31, 2014, interest expense declined from \$5 billion to \$4.5 billion—or 9.8%—compared with the same period in 2013. The decrease was driven by lower yields on new consolidated obligations and the cumulative effect of redemptions and refinancings of higher-yield consolidated obligations in the low interest rate environment.<sup>47</sup>

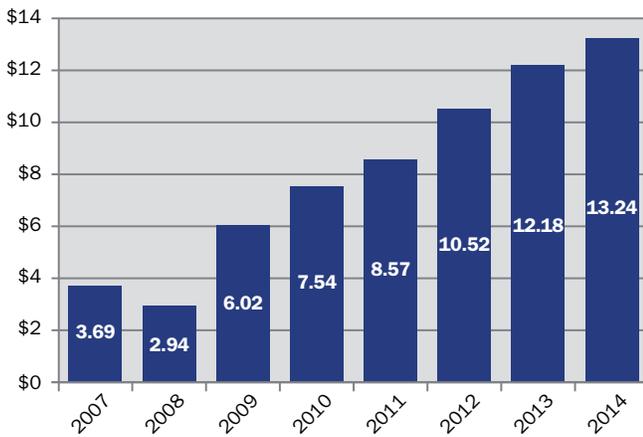
### Derivative and Hedging Activity

The FHLBanks are exposed to interest rate risk primarily from the effect of interest rate changes on their interest-earning assets, as well as the funding sources for these assets. The goal of the FHLBanks is not to eliminate interest rate risk entirely but to manage it within appropriate limits. To achieve this goal, the FHLBanks use derivatives (e.g., interest rate swaps, options, and **swaptions**), which help reduce funding costs, maintain favorable interest rate spreads, and manage overall assets and liabilities.<sup>48</sup>

Net losses from derivative and hedging activities were \$148 million for the year ended December 31, 2014, compared with net gains of \$416 million for the same period in 2013—a substantial change.<sup>49</sup>

The net losses from derivatives and hedging activities for the year ended December 31, 2014, were due primarily to changes in the fair value of

**Figure 14. FHLBanks' Retained Year-End Earnings 2007 Through 2014 (\$ billions)**



derivatives not designated as hedging instruments (e.g., economic hedges). Changes in the fair value of derivatives not designated as hedging instruments are recognized in current period earnings. Changes in the fair value of derivatives that qualify as hedging instruments (i.e., fair value hedges and cash flow hedges) and the assets and liabilities they hedge are recognized in current period earnings or accumulated other comprehensive income.<sup>50</sup>

### Retained Earnings

As shown in Figure 14 (see above), the FHLBanks' combined year-end retained earnings, which are profits not distributed to members via dividends, have increased every year for the last seven years and now exceed \$13 billion as of December 31, 2014.<sup>51</sup> In the near-term and with existing dividend practices, retained earnings should continue to increase as long as the FHLBanks are profitable and subject to the Joint Capital Enhancement Agreement provisions adopted by the FHLBanks in 2011. The agreement calls for the FHLBanks to set aside 20% of their net income into a separate, restricted retained earnings account.<sup>52</sup> The joint capital enhancements help to provide members with access to liquidity during times of economic stress, create an additional buffer

to absorb FHLBank losses, provide protection on members' capital investments, and provide additional assurance that the FHLBanks will meet their consolidated obligations.<sup>53</sup>

## Selected FHFA and GSE Activities

Over this semiannual period, there were several significant FHFA and GSE developments related to: FHFA and GSE performance; lending guidelines on down payments; housing trust funds; changes in nonperforming loan sale requirements; minimum financial eligibility requirements for the Enterprises' seller/servicers; super priority liens; REO property sales; conforming loan limits; guarantee fees; the adopted risk retention rule; the merger of the FHLBanks of Des Moines and Seattle; and FHFA's proposed revisions to FHLBank membership eligibility requirements. Highlights of these developments are summarized below.

### FHFA and GSE Planning and Accountability

#### FHFA Strategic Plan for FY 2015-2019 and Performance and Accountability Report

In November 2014, FHFA released its *FHFA Strategic Plan: Fiscal Years 2015-2019*, which sets the Agency's priorities as regulator and conservator of the Enterprises and regulator of the FHLBanks. The Strategic Plan contains three strategic goals, each with three performance goals. They include:

- Ensure safe and sound regulated entities. The performance goals for this objective are to assess the safety and soundness of regulated entity operations, identify risks to the regulated entities and set expectations for strong risk management, and require timely remediation of risk management weaknesses.

- Ensure liquidity, stability, and access in housing finance. The performance goals are to ensure liquidity in mortgage markets, promote stability in the nation’s housing finance markets, and expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified buyers.
- Manage the Enterprises’ ongoing conservatorships. The performance goals are to preserve and conserve assets, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure.<sup>54</sup>

FHFA reported that its Strategic Plan reflects the priorities outlined for the Enterprises in the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, which the Agency released in May 2014. Prior to its release, FHFA requested input on the draft Strategic Plan from members of Congress, the public, and interested stakeholders.<sup>55</sup>

FHFA also released its *Fiscal Year 2014 Performance and Accountability Report* assessing its activities as regulator of the GSEs in 2014. FHFA said it received an unmodified or “clean” audit opinion on its fiscal year 2014 financial statements from GAO. The *Fiscal Year 2014 Performance and Accountability Report* contained 26 measures designed to evaluate FHFA’s progress. It said 14 performance goals had been met in 2014, 5 had been partially met, 6 had not been met, and 1 had no baseline for comparison.<sup>56</sup>

### **2015 Scorecard for the Enterprises and Common Securitization Solutions**

In January 2015, FHFA released its *2015 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions*, which outlined how the Agency will assess progress in the forthcoming year. The Agency said the 2015 Scorecard is designed to further the goals outlined in FHFA’s *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*. The three major goals highlighted in

the 2015 Scorecard were: (1) maintaining credit availability and foreclosure prevention activities in a safe and sound manner for new and refinanced mortgages to foster what it termed liquid, efficient, competitive, and resilient national housing finance markets; (2) reducing taxpayer risk by increasing the role of private capital in the mortgage market; and (3) building a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.<sup>57</sup>

### **FHFA’s Progress Report on the Implementation of Its Strategic Plan for Enterprise Conservatorships**

In March 2015, FHFA issued a Progress Report on initiatives outlined in its *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* and the *2014 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions*. The Progress Report summarizes major Enterprise activities undertaken in 2014 toward achieving FHFA’s conservatorship expectations under the Scorecard. Enterprise initiatives in support of each of FHFA’s three strategic goals for the conservatorships are also described. Additionally, the report details progress in advancing access to credit; continuing and enhancing loss mitigation and foreclosure prevention efforts; reducing risk to taxpayers by increasing the role of private capital in the mortgage market; and furthering the development of the Common Securitization Platform (CSP) and a single security structure.<sup>58</sup>

### **Mortgage Industry Standards**

During the first few years of the conservatorships, FHFA sought to “preserve and conserve assets, ensure market stability and liquidity, and prepare the Enterprises for an uncertain future.”<sup>59</sup> Some argue that FHFA’s narrow focus on financial performance of the Enterprises thwarted, to some degree, the GSEs’ ability to satisfy the affirmative obligations

under their charters to support affordable housing.<sup>60</sup> In 2014, FHFA launched two initiatives to address the affordable housing mandate.

### 97% LTV Option

One of the priorities and goals in FHFA's 2014 Scorecard was to "work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk-management practices." In internal guidance to the Enterprises on how to execute the Scorecard goals, FHFA directed the Enterprises to develop guidelines setting forth the terms on which they would purchase loans with LTVs as high as 97%, with the objective of increasing liquidity in the mortgage market, consistent with safety and soundness. In October 2014, the FHFA Director announced that the Enterprises were working with FHFA to develop guidelines to lower barriers and restrictions on borrowers who lacked access to home loans.<sup>61</sup>

In December 2014, the Enterprises and FHFA announced that the Enterprises would begin offering 97% LTV products in the near future.<sup>62</sup> Fannie Mae subsequently launched its program in December 2014, and Freddie Mac launched its program in March 2015. The 97% programs offered by each Enterprise, which target—but are not limited to—borrowers with incomes at or below the area median income, have many significant similarities and some differences. Program similarities include:

- Limited to fixed-rate mortgages and cannot include 40-year or interest-only terms;
- Require loans to be full documentation;
- Require credit enhancement, such as private mortgage insurance;
- Can be used for purchase loans or for refinancing existing loans with a limited cash-out of the lesser of 2% or \$2,000 to cover potential changes or

discrepancies in closing cost calculations from origination to closing;

- Permit a borrower to finance up to a total LTV of 105%, including closing costs, when the borrower receives assistance through an acceptable affordable housing program;
- Allow down payments to be gifted;
- Do not require a borrower to maintain a cash or liquid assets reserve after down payment and closing costs; and
- Require borrowers to be owner-occupants.<sup>63</sup>

Program differences include:

- **Underwriting:** Fannie Mae will only accept loans underwritten through its automated system; Freddie Mac will accept loans that are manually underwritten;
- **First-time home buyers:** For new loans (not refinancings), Fannie Mae requires one borrower to be a first-time home buyer; Freddie Mac does not; and
- **FICO score:** Fannie Mae requires a minimum FICO score of 620; Freddie Mac requires a minimum score of 660 for manually underwritten loans and a minimum score of 680 for refinancings.<sup>64</sup>

The FHFA Director recently testified that the Enterprise guidelines "enable creditworthy borrowers who meet stringent criteria and can afford a mortgage, but lack the resources to pay a substantial down payment plus closing costs, to get a mortgage with a three percent down payment."<sup>65</sup>

### Housing Trust Funds

On December 11, 2014, FHFA directed the Enterprises to begin setting aside for, and allocating funds to, the Housing Trust Fund (HTF) and the

Capital Magnet Fund (CMF), which were established by HERA. FHFA determined that the Enterprises' financial condition no longer warranted the suspension of their set asides and allocations because their financial conditions had stabilized sufficiently and "reasonable projections indicate" that they will remain profitable for the foreseeable future.<sup>66</sup>

HTF is administered by HUD; it is intended to provide grants to states to increase and preserve the supply of rental housing and to increase homeownership for low-income families. Similarly, CMF is administered by Treasury and is designed to facilitate a competitive grant program to increase investment in the development, preservation, rehabilitation, and purchase of affordable housing.<sup>67</sup>

Pursuant to HERA, HTF and CMF are funded by set asides of 4.2 basis points for each dollar of unpaid principal balance of new single-family and multifamily business that the Enterprises generate each year. However, in recognition of FHFA's regulatory supervision of the Enterprises, HERA authorizes FHFA to temporarily suspend the annual set asides upon a determination that they would contribute to the Enterprises' financial instability, cause them to be classified as undercapitalized, or prevent them from completing a capital restoration plan. FHFA temporarily suspended the set asides on November 13, 2008.<sup>68</sup>

HERA also requires FHFA to issue regulations prohibiting the Enterprises from passing the cost of the set asides on to lenders. Thus, the Enterprises must absorb this new expense in their existing earnings.<sup>69</sup>

### **Nonperforming Loan Sale Requirements**

In March 2015, FHFA announced enhanced requirements for sales of nonperforming loans (NPLs) by the Enterprises. The enhanced NPL sale requirements are intended to reduce risk to taxpayers by transferring it to the private sector, reduce Enterprise losses, and improve borrower and

neighborhood outcomes by providing alternatives to foreclosure whenever possible. The requirements draw upon Freddie Mac's experience with two pilot sales of NPLs in 2014 and early 2015; these sales had an aggregate value of approximately \$1 billion in unpaid principal balance. The loans included in NPL sales will generally be severely delinquent—typically more than one year past due. The enhanced NPL sale requirements cover: bidder qualifications; modification requirements for servicers; loss mitigation waterfall requirements that include foreclosure as the last option in the waterfall; REO sale requirements that encourage sales to individuals who will occupy the property as their primary residence or to nonprofits; subsequent servicer requirements; and bidding transparency. In addition, reporting by NPL buyers and servicers on borrower outcomes will be required after the transactions close, which should allow the Enterprises to document whether the desired outcomes are being achieved.<sup>70</sup>

### **Minimum Financial Eligibility Requirements for the Enterprises' Seller/Servicers**

In January 2015, FHFA proposed minimum financial eligibility requirements that all sellers and servicers will be required to comply with in order to do business with the Enterprises. They will include such things as net worth, capital ratio, and liquidity requirements. The new criteria were designed to provide consistent application of the criteria for mortgage seller/servicers doing business with the Enterprises. Fannie Mae and Freddie Mac have had somewhat similar net worth requirements for seller/servicers in the past that were based on loans guaranteed by the respective agency only. Fannie Mae also had a capital ratio requirement. The new rules expand the net worth requirement to cover all agency-guaranteed (Fannie Mae/Freddie Mac/**Ginnie Mae**) loans, include a capital ratio requirement for Freddie Mac, and introduce a liquidity requirement for both Enterprises. FHFA said it expected to finalize

the requirements in the second quarter of 2015 after reviewing industry and stakeholder feedback, and that the requirements would be effective six months after they are finalized. Seller/servicer compliance with the minimum financial requirements will be monitored on a quarterly basis.<sup>71</sup>

### **Super Priority Liens**

In December 2014, FHFA continued to express concerns about actions taken at the state level that threaten the first-lien status of single-family loans owned or guaranteed by the Enterprises. The concerns involved energy retrofit financing programs structured as tax assessments and the granting of priority rights in foreclosure proceedings for homeowner associations.<sup>72</sup>

The Agency continued to single out retrofit efforts such as the Property Assessed Clean Energy (PACE) program, which often provides loans as first liens and is available in California and a number of other states. FHFA said that while it supported energy retrofit programs in principle, PACE loans move existing Enterprise mortgages to a second-lien position and thus could increase the risk of loss to the Enterprises and to taxpayers. It warned homeowners with a first-lien PACE loan that they cannot refinance their existing mortgage with a Fannie Mae or Freddie Mac mortgage. It also said that anyone wanting to buy a home that already has a first-lien PACE loan cannot use an Enterprise loan for the purchase, which it cautioned could reduce the marketability of the house.<sup>73</sup>

FHFA also said that in some jurisdictions, liens for unpaid homeowner association dues had been deemed to be senior to preexisting mortgage liens on a homeowner's property. As a result, FHFA intervened in two lawsuits in Nevada, in November and December 2014, in an effort to obtain a ruling that homeowner associations' foreclosure sales are invalid because they try to reduce Enterprise

property rights. The Agency asserted that federal law precludes involuntary extinguishment of liens held by the Enterprises.<sup>74</sup>

### **REO Property Sales**

In November 2014, FHFA directed the Enterprises to change requirements relating to sales of existing REO. The change allows the Enterprises to sell existing properties they own to any qualified purchaser at the property's fair-market value; this changes the way homeowners who have been through foreclosure can repurchase their homes. In the past, the Enterprises had required homeowners who had been through foreclosure and wanted to buy back their homes to pay the full amount owed on the mortgage instead of the fair-market value, which was often lower. The change also applies to a third party buying the property on behalf of the previous owner. However, the policy change is limited to REO inventory of single-family homes as of November 25, 2014, and certain exclusions may apply and will be handled by the Enterprises on a case-by-case basis. FHFA described the adjustment as a policy change that should help reduce property vacancies and stabilize home values.<sup>75</sup>

### **Conforming Loan Limits**

In November 2014, FHFA announced that the maximum conforming loan limits for mortgages acquired by the Enterprises in 2015 would remain at \$417,000 for single-family homes in most of the United States. Under a formula stipulated in HERA, FHFA can increase the conforming loan limit in certain high-cost areas where local median home values exceed the baseline national limit, with a maximum possible limit of \$625,500. FHFA raised the limits in 2015 in 46 counties where increases in home values had taken place. These counties are located in California, Colorado, Massachusetts, Maryland, Tennessee, and Washington.<sup>76</sup>

## Guarantee Fees

In November 2014, FHFA released an analysis that showed that guarantee fees increased in 2013 at a higher rate than in the previous four years. The Agency is required by law to provide an annual assessment of guarantee fees, which are paid to the Enterprises in return for guaranteeing payment of principal and interest on investor-held MBS. The 2014 report said guarantee fees increased to an average of 51 basis points in 2013—as loans acquired by the Enterprises in 2008-2013, with higher guarantee fees, gradually replaced loans acquired prior to 2008 with lower guarantee fees—compared to an average of 36 basis points in 2012 and 22 basis points in 2009. Among the other findings of the assessment, fee increases in 2012 led to reduced differences in pricing between small and large lenders, as measured by the dollar volume of loans sold to the Enterprises in 2013, and reduced pricing differences between 30-year and 15-year fixed-rate loans. The analysis also said that the percentage of loans sold by extra-large lenders decreased from 60% in 2010 to 49% in 2013, while the percentage of loans sold by extra-small lenders increased from 8% to 19%.<sup>77</sup>

The FHFA Director suspended increases in the guarantee fees that had been announced in December 2013 pending a review. FHFA then asked for input from the public about guarantee fee policy and implementation.<sup>78</sup>

## Risk Retention Rule

In October 2014, six federal agencies approved a final rule requiring sponsors of securitizations to retain part of the credit risk in the transactions. Securitization takes place when financial institutions bundle loans such as mortgages into bonds and sell the bonds to investors. Dodd-Frank requires securitizers of loans to retain a portion of the risk should the underlying loans not be repaid. The final

rule adopted by the six agencies calls for securitizers of asset-backed securities (ABS) to retain no less than 5% of the credit risk of the assets **collateralizing** the ABS being issued and it also contains prohibitions against hedging or selling the retained risk. As mandated by Dodd-Frank, the rule exempts securitizations of qualified residential mortgages, as defined by section 129C of the Truth in Lending Act, from the risk retention requirement. The final rule will be effective one year after publication in the *Federal Register* for residential mortgage-backed securitizations and two years after publication for all other securitization types. The rule was issued jointly by the Board of Governors of the Federal Reserve System, HUD, the FDIC, FHFA, the Office of the Comptroller of the Currency, and the SEC.<sup>79</sup>

## FHFA Approval of Merger of FHLBanks of Des Moines and Seattle

On October 31, 2014, in order to remain financially sound and better positioned in the marketplace, the FHLBanks of Des Moines and Seattle filed an application with FHFA to merge.<sup>80</sup> On December 19, 2014, FHFA approved the merger application with conditions, and beginning on January 15, 2015, each eligible member of the two FHLBanks voted to ratify the decision to merge. This was a majority vote that ended on February 23, 2015.<sup>81</sup> On February 27, 2015, the FHLBanks of Des Moines and Seattle announced that members ratified the merger agreement.<sup>82</sup> The merger is expected to close once the FHLBanks have satisfied the conditions of FHFA's December 2014 approval of the merger application and FHFA has accepted the continuing FHLBank's organization certificate.<sup>83</sup> Pending this final FHFA approval, the combined FHLBank will be based out of Des Moines, while a regional office will remain in Seattle.<sup>84</sup> The FHLBanks anticipate that the merger will be finalized in mid-2015.<sup>85</sup>

## **FHFA's Proposed Revisions to FHLBank Membership Eligibility Requirements**

In October 2014, FHFA extended for 60 days the comment period on a proposed rule concerning membership in an FHLBank. The new deadline for comment was January 12, 2015. The proposed rule requires each applicant and member to hold 1% of its assets in home mortgage loans on an ongoing basis rather than on a one-time basis, defines “insurance company” to exclude captive insurers from FHLBank membership, sets requirements for reviewing an insurance company’s audited financial statements, and clarifies the standards by which an insurance company’s place of business is identified.<sup>86</sup>

# Appendices

## Appendix A: Glossary and Acronyms

### Glossary of Terms

**Back Office Systems:** Back office systems are those related to the inner workings of a business or institution.

**Bankruptcy:** A legal procedure for resolving debt problems of individuals and businesses; specifically, a case filed under one of the chapters of Title 11 of the U.S. Code.

**Basis Points:** A hundredth of 1 percentage point. For example, 1 basis point is equivalent to 1/100 of 1 percentage point.

**Bonds:** Obligations by a borrower to eventually repay money obtained from a lender. The buyer of the bond (or “bondholder”) is entitled to receive payments from the borrower.

**Capitalization:** In the context of bank supervision, capitalization refers to the funds a bank holds as a buffer against unexpected losses. It includes shareholders’ equity, loss reserves, and retained earnings. Bank capitalization plays a critical role in the safety and soundness of individual banks and the banking system. In most cases, federal regulators set requirements for adequate bank capitalization.

**Carryforwards:** A provision of tax law that allows current losses or certain tax credits to be utilized in future tax returns.

**Collateral:** Assets used as security for a loan that can be seized by the lender if the borrower fails to repay the loan.

**Commercial Banks:** Commercial banks are establishments primarily engaged in accepting demand and other deposits and making commercial, industrial, and consumer loans. Commercial banks provide significant services in originating, servicing, and enhancing the liquidity and quality of credit that is ultimately funded elsewhere.

**Conforming Loan Limit:** A conforming loan is a conventional loan with an origination balance that does not exceed a specified amount (i.e., conforming loan limit). The Enterprises are restricted by law to purchasing conforming loans, with the loan limits varying by unit size and region, e.g., high-cost areas. The loan limits for 2015 remain unchanged from 2014. For 2015, the maximum general loan limit for a single-family one-unit dwelling is \$417,000, while the maximum high-cost area loan limit for a single-family one-unit dwelling is \$625,500.

**Conservatorship:** Conservatorship is a legal procedure for the management of financial institutions for an interim period during which the institution’s conservator assumes responsibility for operating the institution and conserving its assets. Under the Housing and Economic Recovery Act of 2008, the Enterprises entered into conservatorships overseen by FHFA. As conservator, FHFA has undertaken to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. FHFA also has assumed the powers of the boards of directors, officers, and shareholders; however, the day-to-day operational decision making of each company is delegated by FHFA to the Enterprises’ existing management.

**Credit Unions:** Member-owned, not-for-profit financial cooperatives that provide savings, credit, and other financial services to their members. Credit unions pool their members’ savings deposits and

shares to finance their own loan portfolios rather than rely on outside capital. Members benefit from higher returns on savings, lower rates on loans, and fewer fees on average.

**Default:** Occurs when a mortgagor misses one or more payments.

**Deferred Tax Assets:** Deferred tax assets are recognized for temporary differences that will result in deductible amounts and for carryforwards. For example, a temporary difference is created between the reported amount and the tax basis of a liability for estimated expenses if, for tax purposes, those estimated expenses are not deductible until a future year.

**Derivative Gains (Losses):** The Enterprises acquire and guarantee primarily longer-term mortgages and securities that are funded with debt instruments. The companies manage the interest rate risk associated with these investments and funding activities with derivative agreements. The gains (losses) on derivative agreements are caused by changes in interest rates that, in turn, cause a net increase (decrease) in the fair value of these agreements.

**Derivatives:** A financial contract whose value depends on that of another asset, such as a stock or bond. A derivative contract is, essentially, an agreement providing parties to the agreement with the obligation or the choice to buy, sell, or exchange something at a future date. They may be used to hedge interest rate or other risks related to holding a mortgage.

**Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, ending “too big to fail,” protecting the

American taxpayer by ending bailouts, and protecting consumers from abusive financial services practices.

**Emergency Economic Stabilization Act of 2008:** Legislation that authorizes Treasury to undertake specific measures to provide stability and prevent disruption in the financial system and the economy. It also provides funds to preserve homeownership.

**Fannie Mae:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Fannie Mae supplies funds to lenders so they may make loans to home buyers.

**Federal Home Loan Banks:** The FHLBanks are 12 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or “advances”) to their member banks but do not lend directly to individual borrowers.

**Federal Housing Administration:** Part of HUD, FHA insures residential mortgages made by approved lenders against payment losses. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

**Foreclosure:** A legal process used by a lender to obtain possession of a mortgaged property in order to repay part or all of the debt.

**Freddie Mac:** A federally chartered corporation that purchases residential mortgages, pools them into securities, and sells them to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

**Ginnie Mae:** A government-owned corporation within HUD. Ginnie Mae guarantees investors the timely payment of principal and interest on privately issued MBS backed by pools of government-insured and -guaranteed mortgages.

**Government-Sponsored Enterprises:** Business organizations chartered and sponsored by the federal government.

**Guarantee:** A pledge to investors that the guarantor will bear the default risk on a pool of loans or other collateral.

**Hedging:** The practice of taking an additional step, such as buying or selling a derivative, to offset certain risks associated with holding a particular investment, such as MBS.

**Housing and Economic Recovery Act of 2008:** Legislation that establishes OIG and FHFA, which oversee the GSEs' operations. HERA also expanded Treasury's authority to provide financial support to the GSEs.

**Inspector General Act of 1978:** Legislation that authorizes establishment of offices of inspectors general, "independent and objective units" within federal agencies, that: (1) conduct and supervise audits and investigations relating to the programs and operations of their agencies; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of agency programs and to prevent and detect fraud, waste, or abuse in such programs and operations; and (3) provide a means for keeping the head of the agency and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

**Inspector General Reform Act of 2008:** Legislation that amends the Inspector General Act to

enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

**Insurance Company:** A company whose primary and predominant business activity is the writing of insurance and issuing or underwriting "covered products."

**Interest Rate Swap:** An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal. The notional principal is only used to calculate the interest payments; no risk is attached to it. Interest rate swaps commonly involve exchanging payments based on a fixed interest rate for payments based on a floating rate (e.g., London Interbank Offered Rate). The fixed rate is known as the swap rate.

**Internal Controls:** Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reports, and (3) compliance with applicable laws and regulations. Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives and include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

**Joint and Several Liability:** The concept of joint and several liability provides that each member in a group is responsible for the debts of all in that group. In the case of the FHLBanks, if any individual FHLBank were unable to pay a creditor, the other 11—or any 1 or more of them—would be required to step in and cover that debt.

**Loan-to-Value:** A percentage calculated by dividing the amount borrowed by the price or appraised value

of the home to be purchased; the higher the loan-to-value (also known as LTV), the less cash a borrower is required to pay as down payment.

**Mortgage-Backed Securities:** MBS are debt securities that represent interests in the cash flows—anticipated principal and interest payments—from pools of mortgage loans, most commonly on residential property.

**Nonagency:** A private company that issues MBS that are not guaranteed by a government agency such as Ginnie Mae or the Enterprises.

**Options:** Contracts that give the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument.

**Preferred Stock:** A security that usually pays a fixed dividend and gives the holder a claim on corporate earnings and assets superior to that of holders of common stock but inferior to that of investors in the corporation's debt securities.

**Private-Label Mortgage-Backed Securities:** MBS issued or guaranteed by entities other than GSEs or federal government agencies. They do not carry an explicit or implicit government guarantee, and the private-label MBS investor bears the risk of losses on its investment.

**Real Estate Owned:** Foreclosed homes owned by government agencies or financial institutions, such as the Enterprises or real estate investors. REO homes represent collateral seized to satisfy unpaid mortgage loans. The investor or its representative then must sell the property on its own.

**Securitization:** A process whereby a financial institution assembles pools of income-producing assets (such as loans) and then sells securities representing an interest in the assets' cash flows to investors.

**Securitization Platform:** A mechanism that connects capital market investors to borrowers by bundling mortgages into securities and tracking loan payments.

**Senior Preferred Stock Purchase Agreements:** Entered into at the time the conservatorships were created, the PSPAs authorize the Enterprises to request and obtain funds from Treasury, among other matters. Under the PSPAs, the Enterprises agreed to consult with Treasury concerning a variety of significant business activities, capital stock issuance, dividend payments, ending the conservatorships, transferring assets, and awarding executive compensation.

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

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

**Straw Buyer:** A straw buyer is a person whose credit profile is used to serve as a cover in a loan transaction. Straw buyers are chosen for their ability to qualify for a mortgage loan, causing loans that would ordinarily be declined to be approved. Straw buyers may be paid a fee for their involvement in purchasing a property and usually never intend to own or occupy the property.

**Swap:** Refers to an exchange of one financial instrument for another between two parties. This exchange takes place at a predetermined time, as specified in the contract. Swaps can be used to hedge

risk of various kinds, including interest rate risk and currency risk.

**Swaption:** An option on a swap that gives the holder the right, but not the obligation, to enter, for example, into an interest rate swap as either the payer or the receiver of the fixed side of the swap.

**Thrift:** A financial institution that ordinarily possesses the same depository, credit, financial intermediary, and account transactional functions as a bank but that is chiefly organized and primarily operates to promote savings and home mortgage lending rather than commercial lending.

**Underwater:** Term used to describe situations in which the homeowner's equity is below zero (i.e., the home is worth less than the balance of the loan(s) it secures).

**Underwriting:** The process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit worthiness and an assessment of the property value.

**Upfront Fees:** One-time payments made by lenders when a loan is acquired by an Enterprise. Fannie Mae refers to upfront fees as "loan level pricing adjustments" and Freddie Mac refers to them as "delivery fees."

**Valuation Allowance:** Method of lowering or raising an object's current value by adjusting its acquisition cost to reflect its market value by offsetting another account. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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## Acronyms and Abbreviations

|                       |                                                                   |                |                                                                         |
|-----------------------|-------------------------------------------------------------------|----------------|-------------------------------------------------------------------------|
| <b>ABS</b>            | Asset-Backed Securities                                           | <b>GAO</b>     | Government Accountability Office                                        |
| <b>Agency</b>         | Federal Housing Finance Agency                                    | <b>GSEs</b>    | Government-Sponsored Enterprises                                        |
| <b>Blue Book</b>      | <i>Quality Standards for Inspection and Evaluation</i>            | <b>HERA</b>    | Housing and Economic Recovery Act of 2008                               |
| <b>CAE</b>            | Chief Audit Executive                                             | <b>HRIS</b>    | Human Resource Information System                                       |
| <b>CIGFO</b>          | Council of Inspectors General on Financial Oversight              | <b>HTF</b>     | Housing Trust Fund                                                      |
| <b>CIGIE</b>          | Council of the Inspectors General on Integrity and Efficiency     | <b>HUD</b>     | Department of Housing and Urban Development                             |
| <b>CMF</b>            | Capital Magnet Fund                                               | <b>HUD-OIG</b> | Department of Housing and Urban Development Office of Inspector General |
| <b>CSP</b>            | Common Securitization Platform                                    | <b>IPIA</b>    | Improper Payments Information Act of 2002                               |
| <b>DER</b>            | Division of Enterprise Regulation                                 | <b>IRS-CI</b>  | IRS-Criminal Investigation                                              |
| <b>DHMG</b>           | Division of Housing Mission and Goals                             | <b>IT</b>      | Information Technology                                                  |
| <b>Dodd-Frank</b>     | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 | <b>LPI</b>     | Lender-Placed Insurance                                                 |
| <b>DOJ</b>            | Department of Justice                                             | <b>LTV</b>     | Loan-to-Value                                                           |
| <b>Enterprises</b>    | Fannie Mae and Freddie Mac                                        | <b>MBS</b>     | Mortgage-Backed Securities                                              |
| <b>EO</b>             | Executive Office                                                  | <b>NPL</b>     | Nonperforming Loan                                                      |
| <b>FBI</b>            | Federal Bureau of Investigation                                   | <b>OA</b>      | Office of Audits                                                        |
| <b>FDIC</b>           | Federal Deposit Insurance Corporation                             | <b>OAd</b>     | Office of Administration                                                |
| <b>FHA</b>            | Federal Housing Administration                                    | <b>OC</b>      | Office of Chief Counsel                                                 |
| <b>FHFA</b>           | Federal Housing Finance Agency                                    | <b>OCo</b>     | Office of Compliance and Special Projects                               |
| <b>FHLBank System</b> | Federal Home Loan Bank System                                     | <b>OE</b>      | Office of Evaluations                                                   |
| <b>FHLBanks</b>       | Federal Home Loan Banks                                           | <b>OHRM</b>    | Office of Human Resources Management                                    |
| <b>FISMA</b>          | Federal Information Security Management Act of 2002               | <b>OI</b>      | Office of Investigations                                                |
| <b>FSOC</b>           | Financial Stability Oversight Council                             | <b>OICF</b>    | Office of Internal Controls and Facilities                              |

|              |                                                            |                    |                                                                               |
|--------------|------------------------------------------------------------|--------------------|-------------------------------------------------------------------------------|
| <b>OIG</b>   | Federal Housing Finance Agency Office of Inspector General | <b>REO</b>         | Real Estate Owned                                                             |
| <b>OMB</b>   | Office of Management and Budget                            | <b>RMBS</b>        | Residential Mortgage-Backed Securities                                        |
| <b>OMWI</b>  | Office of Minority and Women Inclusion                     | <b>SAI</b>         | Servicing Alignment Initiative                                                |
| <b>ORA</b>   | Office of Risk Analysis                                    | <b>SAUSA</b>       | Special Assistant U.S. Attorney                                               |
| <b>PACE</b>  | Property Assessed Clean Energy                             | <b>SEC</b>         | Securities and Exchange Commission                                            |
| <b>PFCRA</b> | Program Fraud Civil Remedies Act of 1986                   | <b>SIGTARP</b>     | Office of the Special Inspector General for the Troubled Asset Relief Program |
| <b>PII</b>   | Personally Identifiable Information                        | <b>SIR</b>         | Systemic Implication Report                                                   |
| <b>PSPAs</b> | Senior Preferred Stock Purchase Agreements                 | <b>Treasury</b>    | Department of the Treasury                                                    |
| <b>QE</b>    | Quantitative Easing                                        | <b>Yellow Book</b> | <i>Government Auditing Standards</i>                                          |



## Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote the transparency, efficiency, and effectiveness of the

Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Figure 15 (see page 61) summarizes OIG's formal recommendations that were made, pending, or closed during the reporting period. Figure 16 (see page 77) lists OIG's audit and evaluation reports for which all of the recommendations were closed in prior semiannual periods.

**Figure 15. Summary of OIG Recommendations**

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Report                                                                    | Status                                                                                                                                                                         |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AUD-2014-017-1</b> | FHFA should conduct a comprehensive examination to determine whether Freddie Mac has implemented and enforces an effective IT investment management process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <i>FHFA Oversight of Freddie Mac's Information Technology Investments</i> | Recommendation partially agreed to by FHFA; implementation of recommendation pending.                                                                                          |
| <b>AUD-2014-017-2</b> | FHFA should develop and issue Enterprise IT investment management guidance.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <i>FHFA Oversight of Freddie Mac's Information Technology Investments</i> | Recommendation agreed to by FHFA; implementation of recommendation pending.                                                                                                    |
| <b>AUD-2014-017-3</b> | FHFA should evaluate whether Freddie Mac reports currently used by FHFA examiners provide the information necessary to conduct effective supervisory monitoring of Freddie Mac's portfolio of IT investments.                                                                                                                                                                                                                                                                                                                                                                                                                                            | <i>FHFA Oversight of Freddie Mac's Information Technology Investments</i> | Recommendation agreed to by FHFA; implementation of recommendation pending.                                                                                                    |
| <b>AUD-2014-016-1</b> | FHFA should assess the current state of the Enterprises' critical risk assessment tools, representations and warranties tracking systems, and any other systems, processes, or infrastructure to determine whether the Enterprises are in a position to minimize financial risk that may result from the new framework. The results of this assessment should document any areas of identified risk, planned actions, and corresponding timelines to mitigate each area of identified risk. Further, this assessment should provide an estimate of when each Enterprise will be reasonably equipped to work safely and soundly within the new framework. | <i>FHFA's Representation and Warranty Framework</i>                       | Recommendation partially agreed to by FHFA; however, OIG found FHFA's planned actions "potentially responsive." Recommendation remains open and will continue to be monitored. |

| No.            | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Report                                                                                                                       | Status                                                                       |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| AUD-2014-016-2 | 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. | <i>FHFA's Representation and Warranty Framework</i>                                                                          | Closed – FHFA Audit Follow-up Official Management Decision – see Appendix C. |
| AUD-2014-015-1 | FHFA should communicate a written supervisory expectation to Fannie Mae requiring that its business units perform a review of non-delegated short sale transactions to identify any transactions where the servicer submitted net proceeds that were less than the sale amount approved by Fannie Mae and draft a remediation plan, as appropriate.                                                                                                             | <i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i> | Closed—Final action taken by FHFA.                                           |
| AUD-2014-015-2 | FHFA should communicate a written supervisory expectation to Fannie Mae requiring its internal audit group to review Fannie Mae's plan to collect funds for delegated and non-delegated short sale transactions where the net proceeds received were less than the amounts authorized by Fannie Mae.                                                                                                                                                            | <i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i> | Closed—Final action taken by FHFA.                                           |
| AUD-2014-015-3 | FHFA should analyze Fannie Mae's actions and remediation plans in response to recommendations 1 and 2 to determine whether Fannie Mae has taken necessary steps to ensure that servicers are held accountable for servicing violations and credit losses are minimized. FHFA should also require modification by Fannie Mae of its remediation plans, as appropriate.                                                                                           | <i>FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices</i> | Recommendation agreed to by FHFA; implementation of recommendation pending.  |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                         | Report                                                                                                                                  | Status                                                                                |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| <b>AUD-2014-014-1</b> | FHFA should issue guidance to the Enterprises on the risk management process that should be employed to identify and mitigate risks related to nonperformance under Enterprise contracts with nonbank special servicers.                                                                                                                                                                               | <i>FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages</i>                                | Closed—Final action taken by FHFA.                                                    |
| <b>AUD-2014-014-2</b> | FHFA should develop a comprehensive, formal framework to mitigate the risks nonbank special servicers pose to the Enterprises that includes routine FHFA examinations, Enterprise reviews, and capacity testing before acquisition of servicing rights to ensure these servicers can continue to fulfill their servicing requirements.                                                                 | <i>FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages</i>                                | Recommendation partially agreed to by FHFA; implementation of recommendation pending. |
| <b>AUD-2014-013-1</b> | FHFA should establish policies, procedures, and processes to execute FHFA's oversight of the Enterprises' monitoring of business conducted with mortgage insurers. These policies should provide for the coordinated involvement of necessary FHFA divisions and define their roles and responsibilities in matters pertaining to managing risks to the Enterprises associated with mortgage insurers. | <i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i> | Recommendation partially agreed to by FHFA; implementation of recommendation pending. |
| <b>AUD-2014-013-2</b> | FHFA should develop specific criteria, and update the letter of instruction accordingly, that classifies new mortgage insurers as non-delegated activities that require FHFA approval.                                                                                                                                                                                                                 | <i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i> | Closed—Final action taken by FHFA.                                                    |
| <b>AUD-2014-013-3</b> | FHFA should develop a methodology for FHFA's review of new mortgage insurers and ensure procedures performed are adequately documented and support the conclusions reached during the review.                                                                                                                                                                                                          | <i>CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers</i> | Closed—Final action taken by FHFA.                                                    |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Report                                                                                 | Status                                                                                                                                                                                                                     |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AUD-2014-012-1</b> | FHFA should direct the Enterprises to jointly assess the effectiveness of their pre-foreclosure property inspection processes. OIG identified several specific areas to review as part of the assessment, including: (1) identifying pre-foreclosure property inspection risk and objectives, (2) identifying cost-effective control alternatives for achieving the objective(s), and (3) recommending inspection standards and quality controls with regard to the content and frequency of inspections. | <i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</i> | Closed—Final action taken by FHFA.                                                                                                                                                                                         |
| <b>AUD-2014-012-2</b> | Based on the results of the Enterprises' assessment of their pre-foreclosure property inspection processes, FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.                                                                                                                                                                                                                                            | <i>FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</i> | Recommendation not accepted by FHFA; however, OIG considers FHFA's response to recommendation 2 to be potentially responsive to resolve the recommendation. Recommendation remains open and will continue to be monitored. |
| <b>AUD-2014-009-1</b> | FHFA should promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit.                                                                                                                                                                                                                                                                  | <i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>                | Recommendation agreed to by FHFA; implementation of recommendation pending.                                                                                                                                                |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Report                                                                                                    | Status                                                                      |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>AUD-2014-009-2</b> | FHFA should direct Freddie Mac to develop a repurchase late fee report to be given routinely to FHFA that expands on information already provided by adding summary information by seller on outstanding repurchases, aging of repurchases, late fees assessed and collected, discretionary late fee waivers, and global late fee exclusions. Such a report would provide Freddie Mac and FHFA management with needed information to manage and assess Freddie Mac's repurchase late fee program more effectively. | <i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>                                   | Closed—Final action taken by FHFA.                                          |
| <b>AUD-2014-009-3</b> | FHFA should direct Freddie Mac to provide FHFA with information on any assessed but uncollected late fees associated with the repurchase claims that are included in the 2013 bulk settlements so that these fees can be considered in the negotiations and documented in accordance with the Office of Conservatorship Operations' Settlement Policy.                                                                                                                                                             | <i>FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</i>                                   | Closed—Final action taken by FHFA.                                          |
| <b>AUD-2014-008-1</b> | FHFA should perform supervisory review and follow-up to ensure that Fannie Mae takes action to change the portal message type from automatic override to manual override or fatal for the 25 proprietary messages related to underwriting requirements, which will require lenders to take action to address the appraisal-related messages warning of potential underwriting violations prior to delivering the loans.                                                                                            | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>AUD-2014-008-2</b> | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to develop and implement additional proprietary messages related to its property underwriting requirements.                                                                                                                                                                                                                                                                                                           | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA.                                          |

| No.            | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Report                                                                                                    | Status                                                                      |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| AUD-2014-008-3 | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to establish the additional proprietary messages related to property underwriting requirements as manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.                                                                                                                                                                                                           | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| AUD-2014-008-4 | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review the type of message related to the existing nine proprietary messages for consideration of converting the type of message from automatic override to manual override or fatal, which will require the lenders to take action to address the messages prior to delivering the loans.                                                                                                                                              | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| AUD-2014-008-5 | FHFA should perform supervisory review of both Enterprises to ensure the portal warning messages distinguish between inactive appraisers and unverified appraisers, as of the date the appraisal is performed.                                                                                                                                                                                                                                                                                                                          | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| AUD-2014-008-6 | FHFA should perform supervisory review of both Enterprises to ensure that the portal tests whether appraisers are licensed and active at the time the appraisal is performed.                                                                                                                                                                                                                                                                                                                                                           | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| AUD-2014-008-7 | FHFA should perform supervisory review of both Enterprises to change the message type, for messages relating to appraiser license status, from automatic override to manual override or fatal, which will require lenders to take action to address the message prior to delivering the loan. This action can be taken once the system logic is fixed and the historical records are available to determine the status of an appraiser's license at the time the appraisal work is performed, and the states are updating in real time. | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |

| No.                    | Recommendation                                                                                                                                                                                                                                | Report                                                                                                    | Status                             |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------|
| <b>AUD-2014-008-8</b>  | FHFA should perform supervisory review of both Enterprises to seek remedy for the 23 loans, valued at \$3.4 million, delivered to the Enterprises by the two suspended appraisers in violation of underwriting requirements.                  | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2014-008-9</b>  | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to implement an internal control policy and related procedures to follow up on appraisal license status messages generated by the portal.        | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2014-008-10</b> | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to review loans purchased since the portal's inception that generated messages related to the appraiser's license status.                        | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2014-008-11</b> | FHFA should perform supervisory review and follow-up to ensure that Freddie Mac takes action to use the results of the review to repurchase the loans that contained appraisals that were performed by unlicensed appraisers, as appropriate. | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2014-008-12</b> | FHFA should pursue retention of historical records of the status of appraisers' licenses in the National Registry of Appraisers sufficient to determine the status of appraisers' licenses at the time the appraisal work is performed.       | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2014-008-13</b> | FHFA should pursue having the National Registry of Appraisers updated to reflect the status of state-certified and -licensed appraisers on a real-time basis.                                                                                 | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA. |

| No.                    | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Report                                                                                                    | Status                                                                      |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>AUD-2014-008-14</b> | FHFA should perform supervisory review and follow-up to ensure that the Enterprises develop and implement the portal as intended by FHFA's uniform mortgage data program directive.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <i>FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages</i> | Closed—Final action taken by FHFA.                                          |
| <b>AUD-2012-008-1</b>  | FHFA should reassess the non-delegated authorities to ensure sufficient FHFA involvement with major business decisions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>              | Closed—Final action taken by FHFA.                                          |
| <b>AUD-2012-008-2</b>  | FHFA should evaluate the internal controls established by the Enterprises, including policies and procedures, to ensure they communicate all major business decisions requiring approval to the Agency.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>              | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>AUD-2012-008-3A</b> | FHFA should evaluate Fannie Mae's mortgage pool policy commutations to determine whether these transactions were appropriate and in the best interest of the Enterprise and taxpayers. This evaluation should include an assessment of Fannie Mae's methodology used to determine the economic value of the seven mortgage pool policy commutations. This assessment should include a documented review of Fannie Mae's analysis, the adequacy of the model(s) and assumptions used by Fannie Mae to determine the amount of insurance in force, fair value of the mortgage pool policies, premiums forgone, any other factors incorporated into Fannie Mae's analysis, and the accuracy of the information supplied to FHFA. | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>              | Closed—Final action taken by FHFA.                                          |

| No.                    | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                              | Report                                                                                       | Status                             |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|------------------------------------|
| <b>AUD-2012-008-3B</b> | FHFA should evaluate Fannie Mae's mortgage pool policy commutations to determine whether these transactions were appropriate and in the best interest of the Enterprise and taxpayers. This evaluation should include a full accounting and validation of all of the cost components that comprise each settlement discount (risk in force minus fee charged), such as insurance premiums and time value of money applicable to each listed cost component. | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2012-008-4</b>  | FHFA should develop a methodology and process for conservator review of proposed mortgage pool policy commutations to ensure that there is a documented, sound basis for any pool policy commutations executed in the future.                                                                                                                                                                                                                               | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2012-008-5</b>  | FHFA should complete actions to establish a governance structure at Fannie Mae for obtaining conservator approval of counterparty risk limit increases.                                                                                                                                                                                                                                                                                                     | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2012-008-6</b>  | FHFA should establish a clear timetable and deadlines for Enterprise submission of transactions to FHFA for conservatorship approval.                                                                                                                                                                                                                                                                                                                       | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2012-008-7</b>  | FHFA should develop criteria for conducting business case analyses and substantiating conservator decisions.                                                                                                                                                                                                                                                                                                                                                | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |
| <b>AUD-2012-008-8</b>  | FHFA should issue a directive to the Enterprises requiring them to notify FHFA of any deviation from any previously reviewed action so that FHFA may consider the change and revisit its conservatorship decision.                                                                                                                                                                                                                                          | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i> | Closed—Final action taken by FHFA. |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Report                                                                                                                            | Status                                                                      |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>AUD-2012-008-9</b> | FHFA should implement a risk-based examination plan to review the Enterprises' execution of and adherence to conservatorship decisions.                                                                                                                                                                                                                                                                                                                                                                                                                           | <i>FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions</i>                                      | Closed—Final action taken by FHFA.                                          |
| <b>EVL-2015-004-1</b> | FHFA should implement a sufficiently robust internal communications process to ensure that the FHFA Director is informed of significant issues and concerns by FHFA staff on all conservatorship and supervisory matters that require the Director's decision.                                                                                                                                                                                                                                                                                                    | <i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>EVL-2015-004-2</b> | Given the importance of the Audit Committee's oversight over Fannie Mae's financial reporting and risk management and the breadth of its responsibilities, FHFA should require the Fannie Mae Audit Committee to hold meetings relating to its oversight responsibilities and to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information among directors, senior management, and risk managers and to satisfy FHFA of the adequacy of the Committee's risk oversight function. | <i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Report                                                                                                                            | Status                                                                      |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>EVL-2015-004-3</b> | FHFA should conduct a comprehensive evaluation of the Audit Committee's effectiveness, which should include: whether all members of the Committee are independent from management; whether the Committee's responsibilities are clearly articulated; whether each Committee member understands what is expected of him/her under the Committee's Charter and regulatory requirements; whether the Committee's interactions with Fannie Mae's financial executives, Internal Audit, and the external audit firm are robust and occur regularly; whether the Committee raises critical questions with management and the CAE, including questions that indicate the Committee's understanding of key accounting policies and judgments and that challenge management's judgments and conclusions; whether the Committee has been responsive to issues raised by the external auditor; and whether the Committee periodically assesses the list of top risks and determines responsibility for management of each risk. | <i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>EVL-2015-004-4</b> | FHFA should direct the Audit Committee to align its meetings to address priority issues and risks so that standard reports and informational materials are provided to the Committee in advance of the meetings and may not need to be included on the meeting agenda for discussion and so that the Committee has sufficient time at each meeting to enable it to focus on the most critical issues and risks.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>EVL-2015-004-5</b> | FHFA should assess the adequacy of the criteria and processes used by the Enterprise's Board of Directors to populate each committee of the Board and to rotate committee membership to ensure that the members of each committee have the commitment to be effective.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <i>FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                             | Report                                                                                                             | Status                                                                                |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| <b>EVL-2015-003-1</b> | FHFA should test the new human resource system to ensure that it will provide data sufficient to enable the Agency to perform comprehensive analyses of workforce issues.                                                                                                                                                                  | <i>Women and Minorities in FHFA's Workforce</i>                                                                    | Recommendation agreed to by FHFA; implementation of recommendation pending.           |
| <b>EVL-2015-003-2</b> | FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.                                                                                                                                                                                                                                   | <i>Women and Minorities in FHFA's Workforce</i>                                                                    | Recommendation agreed to by FHFA; implementation of recommendation pending.           |
| <b>EVL-2015-003-3</b> | FHFA should adopt a diversity and inclusion strategic plan.                                                                                                                                                                                                                                                                                | <i>Women and Minorities in FHFA's Workforce</i>                                                                    | Recommendation agreed to by FHFA; implementation of recommendation pending.           |
| <b>EVL-2015-003-4</b> | FHFA should research opportunities to partner with inner-city and other high schools, where feasible, to ensure compliance with HERA.                                                                                                                                                                                                      | <i>Women and Minorities in FHFA's Workforce</i>                                                                    | Recommendation agreed to by FHFA; implementation of recommendation pending.           |
| <b>EVL-2015-001-1</b> | FHFA and DER should (1) adopt a comprehensive examination workpaper index; and (2) 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. | <i>Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities</i> | Recommendation partially agreed to by FHFA; implementation of recommendation pending. |
| <b>EVL-2014-011-1</b> | FHFA should require Freddie Mac to determine, by means of a cost-benefit analysis, whether to increase the size of the sample of reimbursement claims that it subjects to the prepayment review.                                                                                                                                           | <i>Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims</i>                     | Closed—Final action taken by FHFA.                                                    |
| <b>EVL-2014-011-2</b> | FHFA should require Freddie Mac to, if warranted by the result of the cost-benefit analysis, increase the size of the sample of reimbursement claims that it subjects to prepayment review.                                                                                                                                                | <i>Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims</i>                     | Recommendation agreed to by FHFA; implementation of recommendation pending.           |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                          | Report                                                                                          | Status                                                                                                     |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <b>EVL-2014-009-1</b> | FHFA should assess the merits of litigation by the Enterprises against their servicers and lender-placed insurance (LPI) providers to remedy potential damages caused by past abuses in the LPI market and, then, take appropriate action in this regard.                                                                                                                               | <i>FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs</i>                       | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-008-1</b> | To strengthen its management of the CSP, FHFA should establish schedules and time frames for completing key components of the project, as well as an overall completion date as appropriate.                                                                                                                                                                                            | <i>Status of the Development of the Common Securitization Platform</i>                          | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-008-2</b> | To strengthen its management of the CSP, FHFA should establish cost estimates for varying stages of the initiative, as well as an overall cost estimate.                                                                                                                                                                                                                                | <i>Status of the Development of the Common Securitization Platform</i>                          | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-006-1</b> | As FHFA collects and analyzes information on FHLBank advances to large and other members in calendar year 2014, FHFA should report publicly on such items as advance trends, the reasons for such advances, the effectiveness of FHLBank risk management practices, the consistency of such advances with the FHLBank System's housing mission, and other topics as deemed appropriate. | <i>Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks</i> | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-003-1</b> | FHFA's Deputy Director of Division of Housing Mission and Goals (DHMG) should establish an ongoing process to evaluate servicers' Servicing Alignment Initiative (SAI) compliance and the effectiveness of the Enterprises' remediation efforts.                                                                                                                                        | <i>FHFA's Oversight of the Servicing Alignment Initiative</i>                                   | Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored. |
| <b>EVL-2014-003-2</b> | FHFA's Deputy Director of DHMG should direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment.                                                                                                                                                                                                                                             | <i>FHFA's Oversight of the Servicing Alignment Initiative</i>                                   | Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored. |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                    | Report                                                                                       | Status                                                                                                     |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <b>EVL-2014-003-3</b> | FHFA's Deputy Director of DHMG should regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.                                                                                                                                                                                                                | <i>FHFA's Oversight of the Servicing Alignment Initiative</i>                                | Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored. |
| <b>EVL-2014-002-1</b> | FHFA should review its implementation of the 2013 Enterprise examination plans and document the extent to which resource limitations, among other things, may have impeded their timely and thorough execution.                                                                                                                                                                                   | <i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>        | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-002-2</b> | FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.                                                                                                                                                                                                                                                                                | <i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>        | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2014-002-3</b> | FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.                                                                                                                                                                                                                                             | <i>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</i>        | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |
| <b>EVL-2013-012-1</b> | FHFA should ensure Fannie Mae takes the actions necessary to reduce servicer reimbursement processing errors. These actions should include utilizing its process accuracy data in a more effective manner and implementing a red flag system.                                                                                                                                                     | <i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> | Closed—Final action taken by FHFA.                                                                         |
| <b>EVL-2013-012-2</b> | FHFA should require Fannie Mae to: <ul style="list-style-type: none"> <li>• quantify and aggregate its overpayments to servicers regularly;</li> <li>• implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>• report its findings and progress to FHFA periodically.</li> </ul> | <i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i> | Recommendation agreed to by FHFA; implementation of recommendation pending.                                |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Report                                                                                                                                        | Status                                                                      |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>EVL-2013-012-3</b> | FHFA should publish Fannie Mae's reduction targets and overpayment findings.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <i>Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</i>                                                  | Closed—Final action taken by FHFA.                                          |
| <b>EVL-2013-005-1</b> | FHFA should, preferably in consultation with FHA, develop definitions and performance measures that would permit Congress, financial market participants, and the public to assess the progress and the effectiveness of its initiative.                                                                                                                                                                                                                                                                                                                                                                                                                    | <i>FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |
| <b>EVL-2013-005-2</b> | <p>FHFA should assess the feasibility of establishing a formal working arrangement with FHA to assess such critical issues as:</p> <ul style="list-style-type: none"> <li>• (1) the implementation of their pricing initiatives and prospects for success in achieving their objectives, and (2) the potential for shifts of mortgage business and risks between government-supported or -guaranteed markets;</li> <li>• briefing the Federal Housing Finance Oversight Board and/or Financial Stability Oversight Council (FSOC) on the findings of the assessment; and</li> <li>• disclosing the assessment publicly in an appropriate format.</li> </ul> | <i>FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees</i> | Recommendation agreed to by FHFA; implementation of recommendation pending. |

| No.                   | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Report                                                                                                    | Status                                                                             |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>EVL-2012-005-1</b> | <p>FHFA should continue its ongoing horizontal review of unsecured credit practices at the FHLBanks by:</p> <ul style="list-style-type: none"> <li>• following up on any potential evidence of violations of the existing regulatory limits and taking supervisory and enforcement actions as warranted; and</li> <li>• determining the extent to which inadequate systems and controls may compromise the FHLBanks' capacity to comply with regulatory limits and taking any supervisory actions necessary to correct such deficiencies as warranted.</li> </ul> | <p><i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i></p> | <p>Closed—Final action taken by FHFA.</p>                                          |
| <b>EVL-2012-005-2</b> | <p>FHFA should strengthen the regulatory framework around the FHLBanks' extension of unsecured credit by considering the utility of:</p> <ul style="list-style-type: none"> <li>• establishing maximum overall exposure limits;</li> <li>• lowering the existing individual counterparty limits; and</li> <li>• ensuring that the unsecured exposure limits are consistent with the FHLBank System's housing mission.</li> </ul>                                                                                                                                  | <p><i>FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices</i></p> | <p>Recommendation agreed to by FHFA; implementation of recommendation pending.</p> |

**Figure 16. Summary of OIG Reports Where All Recommendations Are Closed**

| Report                                                                                                                                                                                                               | No. of Recommendations |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| <i>FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018)</i>                                                            | 1                      |
| <i>FHFA's Use of Government Travel Cards (AUD-2014-010)</i>                                                                                                                                                          | 4                      |
| <i>FHFA's Use of Government Purchase Cards (AUD-2014-006)</i>                                                                                                                                                        | 4                      |
| <i>FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005)</i>                                                                                                  | 4                      |
| <i>FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties (AUD-2014-004)</i>                                                                          | 3                      |
| <i>Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened (AUD-2014-003)</i>                                                                                                        | 6                      |
| <i>FHFA Can Strengthen Controls over Its Office of Quality Assurance (AUD-2013-013)</i>                                                                                                                              | 7                      |
| <i>Additional FHFA Oversight Can Improve the Real Estate Owned Pilot Program (AUD-2013-012)</i>                                                                                                                      | 3                      |
| <i>FHFA Can Improve Its Oversight of Fannie Mae's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-011)</i>                                                                         | 1                      |
| <i>FHFA Can Improve Its Oversight of Freddie Mac's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-010)</i>                                                                        | 4                      |
| <i>Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs (AUD-2013-009)</i>                                                                                             | 5                      |
| <i>FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws (AUD-2013-008)</i> | 1                      |
| <i>Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements (AUD-2013-007)</i>                                                                                 | 9                      |
| <i>FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups (AUD-2013-006)</i>                               | 2                      |
| <i>FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac (AUD-2013-004)</i>                                                                                      | 2                      |
| <i>FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc. (AUD-2013-002)</i>                                                                                                          | 5                      |

| Report                                                                                                                                            | No. of Recommendations |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| <i>FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales (AUD-2013-001)</i>                                       | 3                      |
| <i>FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Serviceers (AUD-2012-007)</i>                                              | 2                      |
| <i>FHFA's Call Report System (AUD-2012-006)</i>                                                                                                   | 3                      |
| <i>FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned (AUD-2012-005)</i>                                                      | 1                      |
| <i>FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management (AUD-2012-004)</i>                           | 7                      |
| <i>FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards (AUD-2012-003)</i>                                                       | 2                      |
| <i>FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors (AUD-2012-001)</i>                                            | 5                      |
| <i>FHFA's Oversight of Fannie Mae's Default-Related Legal Services (AUD-2011-004)</i>                                                             | 3                      |
| <i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation - 2011 (AUD-2011-003)</i> | 9                      |
| <i>Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program - 2011 (AUD-2011-002)</i>       | 5                      |
| <i>Audit of the Federal Housing Finance Agency's Consumer Complaints Process (AUD-2011-001)</i>                                                   | 3                      |
| <i>FHFA's Reporting of Federal Home Loan Bank Director Expenses (EVL-2014-005)</i>                                                                | 2                      |
| <i>FHFA's Oversight of Derivative Counterparty Risk (ESR-2014-001)</i>                                                                            | 1                      |
| <i>FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America (EVL-2013-009)</i>                                                       | 1                      |
| <i>FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit (EVL-2013-008)</i>        | 2                      |
| <i>FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs (EVL-2013-04)</i>                                                 | 3                      |
| <i>Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-03)</i>                          | 3                      |

| Report                                                                                                                                                      | No. of Recommendations |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| <i>FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001)</i>                                        | 1                      |
| <i>FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters (EVL-2012-009)</i>                                                                      | 4                      |
| <i>Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers (EVL-2012-008)</i>     | 4                      |
| <i>Follow-up on Freddie Mac's Loan Repurchase Process (EVL-2012-007)</i>                                                                                    | 1                      |
| <i>FHFA's Certifications for the Preferred Stock Purchase Agreements (EVL-2012-006)</i>                                                                     | 2                      |
| <i>Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Convention and Exposition (ESR-2012-004)</i>                       | 2                      |
| <i>FHFA's Oversight of the Enterprises' Charitable Activities (ESR-2012-003)</i>                                                                            | 2                      |
| <i>Evaluation of FHFA's Management of Legal Fees for Indemnified Executives (EVL-2012-002)</i>                                                              | 2                      |
| <i>FHFA's Oversight of Troubled Federal Home Loan Banks (EVL-2012-001)</i>                                                                                  | 3                      |
| <i>Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America (EVL-2011-006)</i>              | 2                      |
| <i>Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs (EVL-2011-005)</i>                                                                | 4                      |
| <i>Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk (EVL-2011-004)</i>                                                         | 3                      |
| <i>Evaluation of FHFA's Role in Negotiating Fannie Mae's and Freddie Mac's Responsibilities in Treasury's Making Home Affordable Program (EVL-2011-003)</i> | 1                      |
| <i>Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs (EVL-2011-002)</i>            | 8                      |
| <i>Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform (EVL-2011-001)</i>                            | 2                      |

## Appendix C: Information Required by the Inspector General Act and Subpoenas Issued

Section 5(a) of the Inspector General 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. Further, section 5(a) lists more than a

dozen categories of information that we must include in our semiannual reports.

Below, OIG presents a table that directs the reader to the pages of this report where the information required by the Inspector General Act may be found.

The text that follows further addresses the status of OIG's compliance with sections 5(a)(6), (8), (9), (10), (11), (12), and (13) of the Inspector General Act. Finally, OIG provides information concerning administrative subpoenas that it issued during the semiannual period.

| Source/Requirement                                                                                                                                                                                                                                                                                                                                                                     | Pages                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Section 5(a)(1)- A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.                                                                                                                                                                                                                                    | 11-16                |
| Section 5(a)(2)- A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.                                                                                                                                                                                                                                 | 11-16<br>61-76       |
| Section 5(a)(3)- An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.                                                                                                                                                                                                                      | 61-66<br>68<br>72-76 |
| Section 5(a)(4)- A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.                                                                                                                                                                                                                                                     | 16-25<br>84-113      |
| Section 5(a)(5)- A summary of each report made to the Director of FHFA.                                                                                                                                                                                                                                                                                                                | 11-16                |
| 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. | 11-16<br>81          |
| Section 5(a)(7)- A summary of each particularly significant report.                                                                                                                                                                                                                                                                                                                    | 11-16                |
| 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.                                                                                                                                                                                                                           | 11-16<br>81          |
| 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.                                                                                                                                                                                                    | 11-16<br>81          |
| Section 5(a)(10)- 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.                                                                                                                                                                              | 81                   |
| Section 5(a)(11)- A description and explanation of the reasons for any significant revised management decision made during the reporting period.                                                                                                                                                                                                                                       | 81                   |
| Section 5(a)(12)- Information concerning any significant management decision with which the Inspector General is in disagreement.                                                                                                                                                                                                                                                      | 82                   |
| Section 5(a)(13)- The information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.                                                                                                                                                                                                                                                           | 82                   |

## Audit and Evaluation Reports with Recommendations of Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its reports during the semiannual period that include questioned costs, unsupported costs, and funds to be put to better use. Section 5(a)(8) and section 5(a)(9), respectively, require OIG to publish statistical tables showing the dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. The reports that OIG issued during the reporting period did not include recommendations with dollar values of questioned costs, unsupported costs, or funds put to better use by management.

However, during a previous reporting period OIG released an audit report, *FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages* (AUD-2014-008), that made multiple recommendations, which have since resulted in funds put to better use; the results were reported to OIG during this reporting period. At the recommendation of OIG, Fannie Mae and Freddie Mac sought remedy for 23 loans delivered to the Enterprises by two suspended appraisers in violation of underwriting requirements; 12 loans were repurchased by the sellers for \$1.8 million. And, to address recommendations 10 and 11 of

the report, Freddie Mac reviewed loans and sought appropriate action on 90 identified loans. Of the 90 loans, Freddie Mac received repurchases for 27 loans totaling \$3.3 million.

Figure 17 (see below) discloses OIG's questioned and unsupported cost findings, and recommendations that funds be put to better use.

## Audit and Evaluation Reports with No Management Decision

Section 5(a)(10) of the Inspector General Act, as amended, requires that OIG report on 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. There were no audit or evaluation reports issued before October 1, 2014, that await a management decision.

## Significantly Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended March 31, 2015, there were no significant revised management decisions on OIG's audits and evaluations.

**Figure 17. Funds to Be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period October 1, 2014, Through March 31, 2015**

| Report Issued | Recommendation No. | Date     | Potential Monetary Benefits |                   |                         |
|---------------|--------------------|----------|-----------------------------|-------------------|-------------------------|
|               |                    |          | Questioned Costs            | Unsupported Costs | Funds Put to Better Use |
| AUD-2014-008  | 8                  | 2/6/2014 | \$-                         | \$-               | \$1,800,000             |
| AUD-2014-008  | 10, 11             | 2/6/2014 | \$-                         | \$-               | \$3,300,000             |
| <b>Total</b>  |                    |          | <b>\$-</b>                  | <b>\$-</b>        | <b>\$5,100,000</b>      |

## Significant Management Decision with Which the Inspector General Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in disagreement. During the current reporting period, there was one management decision with which the Inspector General disagreed.

Regarding the audit entitled *FHFA's Representation and Warranty Framework* (AUD-2014-016), OIG disagrees with the management decision, which rejected our recommendation to “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.” Among other things, the recommendation flowed from information indicating that FHFA did not conduct a cost-benefit analysis before it directed the Enterprises to implement significant changes to their representations and warranties framework in 2012 and 2014. As a consequence of the disagreed management decision, OIG commenced a survey “to identify (i) the costs and benefits of the Framework changes; (ii) changes to the Enterprises’ quality control policies and procedures; and (iii) the Framework’s performance results, post-implementation.”

## Federal Financial Management Improvement Act of 1996

The provisions of HERA require FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2014 and 2013 Financial Statements* report, GAO did not identify any deficiencies in FHFA’s internal controls over financial reporting that it considered to be a material weakness or significant deficiency. Further, GAO issued FHFA’s prior and current financial statements audit reports as follows: fiscal year 2014 on November 17, 2014; fiscal year 2013 on December 16, 2013; fiscal year 2012 on November 15, 2012; and fiscal year 2011 on November 15, 2011. For all four audits, GAO found: (1) FHFA’s financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles; (2) FHFA maintained, in all material respects, effective internal controls over financial reporting as of the last day of the audit period; and (3) no reportable noncompliance for the fiscal year tested with provisions of applicable laws, regulations, contracts, and grant agreements it tested. HERA requires GAO to conduct this audit.

Several OIG reports published during the semiannual period identified specific opportunities to strengthen FHFA’s internal controls. These reports are summarized on pages 11 through 16.

## Subpoenas Issued

During the reporting period, OIG issued 32 subpoenas as summarized in Figure 18 (see below).

**Figure 18. Subpoenas Issued for the Period October 1, 2014, Through March 31, 2015**

| Issuing Office | Number of Subpoenas |
|----------------|---------------------|
| OA             | 0                   |
| OE             | 0                   |
| OI             | 32                  |
| <b>Total</b>   | <b>32</b>           |

## Appendix D: OIG Reports

See [www.fhfa.ig.gov](http://www.fhfa.ig.gov) for OIG's reports.

### Evaluation Reports

*FHFA's Oversight of Two Mission-Related Requirements for Federal Home Loan Bank Long-Term Advances* (ESR-2015-005, March 31, 2015).

*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive* (EVL-2015-004, March 11, 2015).

*Women and Minorities in FHFA's Workforce* (EVL-2015-003, January 13, 2015).

*Impact of the Federal Reserve's Quantitative Easing Programs on Fannie Mae and Freddie Mac* (EVL-2015-002, October 23, 2014).

*Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities* (EVL-2015-001, October 6, 2014).

### White Paper Reports

*Cyber Security: An Overview of FHFA's Oversight of and Attention to the Enterprises' Management of Their IT Infrastructures* (WPR-2015-003, March 31, 2015).

*FHFA's Conservatorships of Fannie Mae and Freddie Mac: A Long and Complicated Journey* (WPR-2015-002, March 25, 2015).

*The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured* (WPR-2015-001, March 18, 2015).

### Other Reports

*Audit and Evaluation Plan* (February 2015).

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

In these types of schemes, sellers or developers typically solicit investors with good credit who want low-risk investment opportunities by offering deals on properties with no money down and other lucrative incentives, such as cash back and guaranteed and immediate rent collection. The sellers fund these incentives with inflated sales prices set by complicit property appraisers. The fraudsters conceal the incentives and the true property values from the lenders, defrauding them into making loans that are much riskier than they appear. When the properties go into foreclosure, lenders suffer large losses.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

### A Condo Developer Ponzi Scheme Involving Enterprise Properties

The Cay Clubs Resorts, which operated resort-style hotels/condominiums throughout the U.S., allegedly operated as a massive Ponzi and securities fraud scheme. It allegedly defrauded 1,400 investors, FDIC-insured banks, and the Enterprises out of over \$300 million. The scheme caused a loss to Freddie Mac of \$4,920,699 and to Fannie Mae of \$2,197,935.

| DEFENDANT                                       | ROLE                                       | MOST RECENT ACTION                                                | DATE               |
|-------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------|--------------------|
| Barry J. Graham                                 | Director of sales for Cay Clubs            | Sentenced to 5 years in prison and 3 years of supervised release. | March 30, 2015     |
| Ricky L. Stokes                                 | Director of investor relations/sales agent | Sentenced to 5 years in prison and 3 years of supervised release. | March 24, 2015     |
| Fred Davis Clark Jr. (also known as Dave Clark) | Cay Clubs owner/scheme leader              | Arrested and charged with bank fraud conspiracy.                  | September 16, 2014 |
| Cristal Clark (also known as Cristal Coleman)   | Cay Clubs owner/executive                  | Arrested and charged with bank fraud conspiracy.                  | September 16, 2014 |

### Multistate Condo Conversion Scheme

Burchell and others allegedly negotiated with the builders of new housing developments in California, Florida, and Arizona to sell the units in exchange for large commissions not disclosed to the lenders. The defendants recruited straw buyers and submitted false loan applications to sell more than 100 units, resulting in a loss to the Enterprises of at least \$2.37 million.

| DEFENDANT        | ROLE                                  | MOST RECENT ACTION                                                  | DATE             |
|------------------|---------------------------------------|---------------------------------------------------------------------|------------------|
| Mohamed Salah    | Prepared false documents              | Convicted by jury trial of a conspiracy charge.                     | March 27, 2015   |
| Maher Obagi      | Office manager                        | Convicted by jury trial of conspiracy and three wire fraud charges. | March 27, 2015   |
| Mohamed El Tahir | Transmitted false documents to lender | Pled guilty to wire fraud.                                          | November 5, 2013 |

| DEFENDANT           | ROLE                                                                     | MOST RECENT ACTION                                                                          | DATE            |
|---------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------|
| Jacqueline Burchell | Escrow officer                                                           | Pled guilty to conspiracy to commit bank and wire fraud.                                    | June 13, 2013   |
| Momoud Abaji        | Obtained straw buyers and negotiated kickbacks with builders             | Charged with wire fraud, conspiracy to commit bank and wire fraud, and aiding and abetting. | January 4, 2013 |
| Wajieh Tbakhi       | Obtained straw buyers and taught others how to fabricate false documents | Charged with wire fraud, conspiracy to commit bank and wire fraud, and aiding and abetting. | January 4, 2013 |
| Ali Khatib          | Owner of company                                                         | Pled guilty to bank fraud.                                                                  | August 2, 2012  |

### A Loan Origination Scheme Involving Kickbacks to Straw Buyers and Others

Conspirators allegedly owned or controlled various real estate properties and enlisted other individuals to recruit straw buyers to fraudulently purchase condominiums in the properties. The defendants prepared and caused to be prepared loan documents containing false statements, which induced the lenders to make loans to finance the condominiums. Conspirators allegedly used the loan proceeds to pay kickbacks to the brokers, recruiters, and straw buyers, as well as to pay the mortgages to conceal the conspiracy. The loss exposure to Fannie Mae and Freddie Mac is \$5,216,873 and \$5,646,264, respectively. In total, the scheme caused losses to the Enterprises and other financial institutions of over \$20 million.

|                    |                                               |                                                                                                                                                        |                   |
|--------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Enrique Angulo     | Straw buyer recruiter                         | Sentenced to 30 months in prison, 36 months of supervised release, and ordered to pay \$2,212,167 in restitution, jointly and severally.               | March 24, 2015    |
| Frank Ibarzabal    | Straw buyer recruiter                         | Sentenced to 12 months in prison, 60 months of supervised release, and ordered to pay \$745,782 in restitution.                                        | March 5, 2015     |
| Dorian A. Magarino | Straw buyer recruiter                         | Sentenced to 6 months of home confinement, 2 years of supervised release, 100 hours of community service, and ordered to pay \$200,782 in restitution. | February 10, 2015 |
| Leidy Masvidal     | Loan officer/broker/owner of mortgage company | Sentenced to 33 months in prison, 5 years of supervised release, and ordered to pay \$5,779,859 in restitution.                                        | December 4, 2014  |
| Douglas Ponce      | Straw buyer recruiter                         | Sentenced to 15 months in prison, 5 years of supervised release, and ordered to pay \$1,655,479 in restitution.                                        | December 3, 2014  |
| Tania Masvidal     | Loan officer                                  | Sentenced to 35 months in prison, 5 years of supervised release, and ordered to pay \$5,657,803 in restitution.                                        | December 3, 2014  |
| Wilkie Perez       | Mortgage broker/owner of mortgage company     | Sentenced to 36 months in prison, 3 years of supervised release, and ordered to pay \$4,921,660 in restitution.                                        | December 2, 2014  |

| DEFENDANT           | ROLE                   | MOST RECENT ACTION                                                                                                              | DATE               |
|---------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Luis Michael Mendez | Owner/seller           | Sentenced to 51 months in prison, 3 years of supervised release, and ordered to pay \$2,865,729 in restitution.                 | December 2, 2014   |
| Stavroula Mendez    | Owner/developer/seller | Convicted of one count of conspiracy to commit bank and wire fraud, 10 counts of bank fraud, and three counts of wire fraud.    | November 21, 2014  |
| Lazaro Mendez       | Owner/seller           | Convicted of one count of conspiracy to commit bank and wire fraud, 10 counts of bank fraud, and one count of wire fraud.       | November 21, 2014  |
| Marie Mendez        | Straw buyer            | Convicted of one count of conspiracy to commit bank and wire fraud, three counts of bank fraud, and one count of wire fraud.    | November 21, 2014  |
| Alfredo Chacon      | Straw buyer recruiter  | Sentenced to 31 months in prison, 36 months of supervised release, and ordered to pay restitution in the amount of \$1,531,438. | September 26, 2014 |
| Francisco Martos    | Loan officer           | Sentenced to 30 months in prison, 36 months of supervised release, and ordered to pay restitution in the amount of \$779,533.   | September 26, 2014 |
| Dorian W. Magarino  | Straw buyer            | Sentenced to 24 months in prison, 36 months of supervised release, and ordered to pay restitution in the amount of \$1,175,048. | September 26, 2014 |
| Luis Mendez Sr.     | Owner/developer/seller | Indicted for bank fraud, wire fraud, and conspiracy to commit bank and wire fraud.                                              | March 13, 2014     |

### Bank Fraud Schemes in West Palm Beach and Tampa

Individuals were allegedly involved in marketing and selling condominiums at developments in both Palm Beach County and in the Tampa area. The schemes were similar and involved seller-provided incentive packages that included cash to close, cash rebates, and guaranteed rent, which were not disclosed to the lenders that funded the mortgages.

|                    |                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                |
|--------------------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Jordana Ende-Tobel | Real estate broker/straw buyer recruiter | Pled guilty in two cases: one count of the superseding indictment charging her with conspiracy to commit bank fraud (in the U.S. District Court for the Southern District of Florida); and a one-count information (in the U.S. District Court for the Middle District of Florida, Tampa) charging her with conspiracy to commit bank fraud in a similar scheme, which was transferred to and combined with the U.S. District Court for the Southern District of Florida case. | March 19, 2015 |
|--------------------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|

| DEFENDANT              | ROLE                                                       | MOST RECENT ACTION                                                                                                                                                                                                                                                                                                                                                                                                                         | DATE              |
|------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Joseph L. Pasquale     | Real estate broker/<br>straw buyer recruiter               | Charged with one count of conspiracy to commit bank fraud and two counts of bank fraud.                                                                                                                                                                                                                                                                                                                                                    | March 17, 2015    |
| Florencio Luis Tezanos | Former loan officer at Wells Fargo Bank                    | Sentenced to 18 months in prison and 3 years of supervised release.                                                                                                                                                                                                                                                                                                                                                                        | February 18, 2015 |
| Mike Zaric             | Contract coordinator manager for Broadmor Development, LLC | Charged with making a false declaration before a grand jury proceeding.                                                                                                                                                                                                                                                                                                                                                                    | February 3, 2015  |
| Rashmi Airan-Pace      | Attorney and former escrow agent                           | Pled guilty in two separate cases: one count of conspiracy to commit bank fraud (in the U.S. District Court for the Southern District of Florida); and a one-count information (in the U.S. District Court for the Middle District of Florida, Tampa) charging her with conspiracy to commit bank fraud in a similar scheme, which was transferred to and combined with the U.S. District Court for the Southern District of Florida case. | December 17, 2014 |
| Jose Aller             | Recruiter                                                  | Sentenced to 12 months in prison and 24 months of supervised release.                                                                                                                                                                                                                                                                                                                                                                      | August 29, 2014   |
| Joaquin Cossio         | Real estate broker                                         | Pled guilty to one count of conspiracy to commit bank fraud.                                                                                                                                                                                                                                                                                                                                                                               | August 29, 2014   |
| Ernesto Rodriguez      | Recruiter                                                  | Sentenced to 12 months in prison and 24 months of supervised release.                                                                                                                                                                                                                                                                                                                                                                      | August 29, 2014   |
| Brenden Bolger         | Straw buyer/recruiter/<br>developer/salesman               | Pled guilty to conspiracy to commit mail, wire, and bank fraud.                                                                                                                                                                                                                                                                                                                                                                            | August 20, 2014   |
| Eli Riesel             | Developer's representative                                 | Charged with conspiracy to commit bank fraud and bank fraud.                                                                                                                                                                                                                                                                                                                                                                               | August 7, 2014    |

### **\$39 Million Builder Bailout Fraud**

Juan Carlos Sanchez was the leader of a conspiracy involving numerous mortgage brokers, real estate agents, and settlement agents across southern and central Florida who were involved in the sale of multiple condo conversion properties. The investigation has documented 165 transactions involving Sanchez and his co-conspirators and over \$39 million in mortgage loans. Of the 165 transactions, 131 have been foreclosed, resulting in a \$34 million loss to the various lenders, and another 26 are in the foreclosure process. Freddie Mac's exposure is 36 units totaling \$8.5 million in loans.

|                  |                |                                                                                                              |                  |
|------------------|----------------|--------------------------------------------------------------------------------------------------------------|------------------|
| Jaime Sanchez    | Scheme leader  | Sentenced to 14 years in prison and 5 years of supervised release.                                           | January 9, 2015  |
| Marina Superlano | Co-conspirator | Sentenced to 366 days in prison, 3 years of supervised release, and ordered to pay \$278,878 in restitution. | June 25, 2014    |
| Quelyory Rigal   | Scheme leader  | Sentenced to 16 years and 8 months in prison and 3 years of supervised release.                              | October 16, 2013 |
| Marisa Perez     | Co-conspirator | Sentenced to 9 months' home confinement, 4 years of supervised release, and 300 hours of community service.  | July 11, 2013    |

| DEFENDANT           | ROLE           | MOST RECENT ACTION                                                               | DATE              |
|---------------------|----------------|----------------------------------------------------------------------------------|-------------------|
| Osbelia Lazardi     | Co-conspirator | Sentenced to 2 years and 1 month in prison and 3 years of supervised release.    | May 3, 2013       |
| Sandra Campo        | Co-conspirator | Sentenced to 5 years and 10 months in prison and 5 years of supervised release.  | April 29, 2013    |
| Dayanara Montero    | Co-conspirator | Sentenced to 1 year and 10 months in prison and 3 years of supervised release.   | April 9, 2013     |
| Edward Mena         | Straw buyer    | Sentenced to 4 years and 6 months in prison and 60 months of supervised release. | January 11, 2013  |
| Juan Carlos Sanchez | Scheme leader  | Sentenced to 15 years in prison and 3 years of supervised release.               | January 3, 2013   |
| David Arboleda      | Co-conspirator | Sentenced to 3 months in prison and ordered to pay \$390,000 in restitution.     | December 12, 2012 |
| Celeste Mota        | Co-conspirator | Sentenced to 4 years of probation.                                               | November 28, 2012 |

### Escrow Officer Sentenced

Gumaer, an escrow officer at Regency Title Company, provided money from herself and others to borrowers for property down payments. On at least 10 homes, she disguised the source of the down payments to lenders by showing that the funds were either from the buyers or gifts to them. Seven of the homes were purchased or secured by Freddie Mac, which suffered a loss of \$425,716, and one of the homes was purchased or secured by Fannie Mae, which was exposed to a loss of \$58,964.

|               |                |                                                                                                                        |                   |
|---------------|----------------|------------------------------------------------------------------------------------------------------------------------|-------------------|
| Yvonne Gumaer | Escrow officer | Sentenced to 33 months' incarceration, 3 years of supervised release, and ordered to pay \$791,782 in restitution.     | December 17, 2014 |
| Larry Reisman | Builder        | Sentenced to 42 months' incarceration, 3 years of supervised release, and ordered to pay \$1.5 million in restitution. | December 16, 2013 |



# Appendix F: OI Publicly Reportable Investigative Outcomes Involving Fraud Committed Against the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category involve a variety of schemes that target Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

| <br>DEFENDANT | <br>ROLE | <br>MOST RECENT ACTION | <br>DATE |
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|

## Identity Theft Involving Fannie Mae Insider

Thomas and others allegedly conspired to steal the PII of over 1,000 Fannie Mae customers, which also caused monetary damages to involved financial institutions, including JPMorgan Chase and Bank of America.

|                  |                                      |                                                                                                                                                                       |                   |
|------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Anthony Minor    | Purchased and sold PII               | Sentenced to 16 years in prison and ordered to pay \$88,131 in restitution. Previously convicted by a federal jury of bank fraud and aggravated identification theft. | March 18, 2015    |
| Katrina Thomas   | Former Fannie Mae employee—stole PII | Sentenced to 4 years in prison and a 2-year term of supervised release.                                                                                               | November 17, 2014 |
| Tilisha Morrison | Purchased and sold PII               | Sentenced to 4 years in prison and a 2-year term of supervised release.                                                                                               | November 12, 2014 |
| Kario Butler     |                                      | Sentenced to 2 years of supervised release.                                                                                                                           | November 3, 2014  |
| Jamilah Karriem  |                                      | Sentenced to 2 years of supervised release.                                                                                                                           | November 3, 2014  |
| Cyrus Pritchett  |                                      | Sentenced to time served and 2 years of supervised release.                                                                                                           | October 21, 2014  |
| Karen Mendoza    |                                      | Charged with conspiracy to commit bank fraud and bank fraud.                                                                                                          | February 7, 2014  |

## REO Broker for Fannie Mae Charged

Simons, owner of Re/Max County Line and approved Fannie Mae REO broker in Illinois, allegedly stole escrow money provided by potential real estate buyers.

|                 |  |                                                              |                |
|-----------------|--|--------------------------------------------------------------|----------------|
| Harry G. Simons |  | Charged via criminal complaint with theft of over \$100,000. | March 18, 2015 |
|-----------------|--|--------------------------------------------------------------|----------------|

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

### Unlicensed Appraiser/Identity Theft Scheme

Subjects allegedly fraudulently obtained and used the identity of a licensed appraiser to prepare real estate appraisals, which were subsequently used to support mortgage loans sold to the Enterprises. White submitted over 400 appraisals for use in mortgage loans using the stolen identity.

|               |                                                    |                                                                                              |                   |
|---------------|----------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------|
| Diana Merritt | President/loan officer at Merit Home Finance, Inc. | Charged via superseding information alleging 54 counts of identity theft and mortgage fraud. | February 20, 2015 |
| Douglas White | Unlicensed appraiser                               | Charged via superseding information alleging 54 counts of identity theft and mortgage fraud. | February 20, 2015 |

### Multifamily Scheme

Yaney, Bray, and Russell allegedly conspired to devise a scheme to defraud Washington Mutual Bank and Greystone Bank. Conspirators inflated the sale prices of a multifamily property and used false rent rolls to obtain an \$8.4 million loan. Conspirators further used false rent roles, leases, information, and financials to obtain an \$8.1 million refinance loan. The scheme caused over \$6.8 million in losses to Fannie Mae.

|               |                           |                                                                                                                                                                                       |                   |
|---------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| James Russell | Submitted false documents | Pled guilty to extortion. Previously indicted on one count of conspiracy to commit bank fraud and wire fraud, bank fraud, wire fraud, and a forfeiture allegation on October 7, 2014. | February 11, 2015 |
| Maximus Yaney | Submitted false documents | Indicted on one count of conspiracy to commit bank fraud and wire fraud, bank fraud, wire fraud, and a forfeiture allegation.                                                         | October 7, 2014   |
| Jamie Bray    | Submitted false documents | Indicted on one count of conspiracy to commit bank fraud and wire fraud, bank fraud, wire fraud, and a forfeiture allegation.                                                         | October 7, 2014   |

### Bank CEO Committed Bank Fraud Involving FHLBank Member

Owens allegedly abused his position with Voyager Bank to circumvent the bank's lending procedures to obtain letters of credit, which included a \$7.5 million irrevocable confirming letter of credit from the FHLBank of Des Moines. The loss to Voyager is estimated at \$9.7 million.

|               |                                                      |                                                                                                                       |                   |
|---------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------|
| Timothy Owens | Former CEO and chairman of the board at Voyager Bank | Indicted for false bank entries, reports, and transactions and obstructing an examination of a financial institution. | December 15, 2014 |
|---------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------|

### Computer Intrusion at Fannie Mae

Rajendran worked at Fannie Mae as an IT term employee from August 2010 to August 2013. Upon his termination he made unauthorized changes to the CheckMyNPV.com website and disabled the website's tool for checking Home Affordable Modification Program eligibility.

|                                  |                  |                                                                                                                                     |                 |
|----------------------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Sathish Kumar Chandhun Rajendran | Sole conspirator | Sentenced to 3 years of supervised probation, 50 hours of community service, forfeiture of his laptop, and \$69,638 in restitution. | October 3, 2014 |
|----------------------------------|------------------|-------------------------------------------------------------------------------------------------------------------------------------|-----------------|

## Appendix G: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. These schemes typically involve falsifying buyers' income, assets, employment, and credit profile to make them more attractive to lenders. These schemes often use bogus Social Security numbers and fake or altered documents such as W-2 forms and bank statements to defraud lenders into making loans they would not otherwise make. Typically, perpetrators pocket origination fees or inflate home prices and divert proceeds.

|  DEFENDANT                                                                                                                                           |  ROLE |  MOST RECENT ACTION                                                                                                                                   |  DATE |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>\$3.5 Million Loan Origination Fraud</b>                                                                                                                                                                                           |                                                                                        |                                                                                                                                                                                                                                         |                                                                                          |
| The defendants diverted \$1.3 million in funds from over \$8.2 million in fraudulently obtained loans, which resulted in losses of over \$1.2 million to the Enterprises and losses of \$3.5 million to FHA and conventional lenders. |                                                                                        |                                                                                                                                                                                                                                         |                                                                                          |
| Peter Ligate                                                                                                                                                                                                                          | Realtor                                                                                | Sentenced to 5 months in prison, 3 years of supervised release, and ordered to pay \$352,091 in restitution, jointly and severally.                                                                                                     | March 31, 2015                                                                           |
| Edgar Tibakweitira                                                                                                                                                                                                                    | Realtor                                                                                | Sentenced to 57 months in prison, 5 years of supervised release, and ordered to pay \$2,482,856 in restitution, jointly and severally. Tibakweitira must surrender to U.S. Immigration officials upon conclusion of incarceration.      | March 31, 2015                                                                           |
| Cane Mwihava                                                                                                                                                                                                                          | Straw buyer                                                                            | Sentenced to 6 months of home detention, 5 years of supervised release, and ordered to pay \$352,091 in restitution, jointly and severally. Mwihava must surrender to U.S. Immigration officials upon conclusion of his home detention. | March 23, 2015                                                                           |
| Carmen Johnson                                                                                                                                                                                                                        | Facilitated false credit history                                                       | Convicted by a jury on 24 counts of conspiracy to commit wire fraud affecting a financial institution, wire fraud, and loan application fraud.                                                                                          | February 20, 2015                                                                        |
| Annika Boas                                                                                                                                                                                                                           | Straw buyer                                                                            | Sentenced to 27 months in prison, 5 years of supervised release, and ordered to pay \$511,147 in restitution, jointly and severally. Boas must surrender to U.S. Immigration officials upon conclusion of her incarceration.            | January 7, 2015                                                                          |

| DEFENDANT        | ROLE                                    | MOST RECENT ACTION                                                                                                                                                                                                              | DATE              |
|------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Abdallah Kitwara | Straw buyer                             | Sentenced to 15 months in prison, 5 years of supervised release, and ordered to pay a \$50,000 fine and \$290,954 in restitution.                                                                                               | December 2, 2014  |
| Ayoub Luziga     | Straw buyer                             | Sentenced to 21 months in prison, 2 years of supervised release, and ordered to pay \$999,726 in restitution, jointly and severally. Luziga must surrender to U.S. Immigration officials upon conclusion of his incarceration.  | November 24, 2014 |
| Raymond Abraham  | Facilitated straw buyers with false IDs | Sentenced to 33 months in prison, 5 years of supervised release, and ordered to pay \$999,726 in restitution, jointly and severally. Abraham must surrender to U.S. Immigration officials upon conclusion of his incarceration. | October 27, 2014  |
| Mrisho Mzese     | Seller                                  | Due to be sentenced but fled back to Tanzania and is now a fugitive. Previously found guilty by a jury on 11 felony counts.                                                                                                     | August 7, 2014    |
| Gladyness Silaa  | Realtor                                 | Sentenced to 3 years of probation and ordered to pay \$378,602 in restitution joint and several.                                                                                                                                | June 16, 2014     |
| Mokorya Wambura  | Straw buyer                             | Sentenced to 60 months' incarceration, 5 years of supervised release, and a special assessment of \$300. Wambura faces deportation upon release.                                                                                | June 16, 2014     |
| Flavia Makundi   | Straw buyer                             | Sentenced to time served, 24 months of supervised release, and \$100 in special assessments.                                                                                                                                    | June 2, 2014      |
| Larry Johnson    | Facilitated a straw buyer               | Sentenced to 56 months' incarceration, forfeiture of \$252,091, and \$100 in special assessments.                                                                                                                               | February 24, 2014 |

### Multidefendant Origination Scheme

Subjects allegedly conspired to commit various types of financial fraud including mortgage fraud, federal student loan fraud, and small business loan fraud. The scheme involved submitting false documents and straw buyers. The loss exposure to the Enterprises is approximately \$800,000.

|                       |              |                                                                                            |                |
|-----------------------|--------------|--------------------------------------------------------------------------------------------|----------------|
| Derrek L. Campbell II | Straw buyer  | Pled guilty to one count of wire fraud.                                                    | March 27, 2015 |
| Anthony Trice         |              | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015  |
| Jerrod Weathersby     |              | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015  |
| Noreen Mian           | Loan officer | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015  |

| DEFENDANT            | ROLE | MOST RECENT ACTION                                                                         | DATE          |
|----------------------|------|--------------------------------------------------------------------------------------------|---------------|
| Warren Taylor        |      | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015 |
| David Edwards        |      | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015 |
| Sirarthur McClelland |      | Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges. | March 5, 2015 |

### CPA Plea in Multimillion Dollar Mortgage Fraud Scheme

Austin and others allegedly defrauded banks, mortgage lenders, the Enterprises, and FHA by assisting others to obtain mortgage loans on residential real estate properties through false loan applications and documents and fraudulent settlements.

|                        |                             |                                                                                                                                                                       |                   |
|------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Edward Dacy            | Settlement agent and lawyer | Convicted by jury trial of 10 counts of conspiracy, bank fraud, and mail fraud.                                                                                       | March 25, 2015    |
| A. Conrad Austin       | CPA                         | Pled guilty to one count of conspiracy to commit bank fraud. Ordered to pay \$5,001 in restitution, \$5,001 in recovery/forfeiture, and \$100 in special assessments. | February 18, 2015 |
| Pauline Pilate         | Real estate agent           | Pled guilty. Ordered to pay \$341,070 in recovery/forfeiture.                                                                                                         | July 3, 2014      |
| Howard Tutman III      | Loan officer                | Pled guilty. Ordered to pay \$606,414 in recovery/forfeiture and \$100 in special assessments.                                                                        | July 2, 2014      |
| Frank Dams             | Ringleader                  | Pled guilty. Ordered to pay \$2,296,463 in recovery/forfeiture and \$100 in special assessments.                                                                      | April 30, 2014    |
| Frank Davis Jr.        | Co-conspirator              | Pled guilty to conspiracy and bank fraud.                                                                                                                             | April 30, 2014    |
| Frederick Robinson Sr. | Second ringleader           | Pled guilty. Ordered to pay \$971,900 in recovery/forfeiture and \$100 in special assessments.                                                                        | April 23, 2014    |
| Cheryl Morrison        | Settlement processor        | Pled guilty. Ordered to pay \$341,070 in recovery/forfeiture.                                                                                                         | July 25, 2013     |
| Lonnie Johnson         | Bank employee               | Pled guilty to conspiracy to commit bank fraud.                                                                                                                       | May 2, 2013       |
| Anthony Young          | Recruiter/straw buyer       | Pled guilty to conspiracy and bank fraud.                                                                                                                             | January 30, 2013  |
| Derrick Cannon         | Recruiter/straw buyer       | Sentenced to 15 months in prison and ordered to pay \$173,165 in restitution and \$12,574 in recovery/forfeiture.                                                     | August 31, 2012   |

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

### A Loan Origination with Undisclosed Incentives and Misrepresentations

King, Hearn, and others allegedly conspired to launder proceeds by means of committing wire fraud. King and Hearn had allegedly formed an agreement with others to assist in providing buyers of homes with the funds to close on real estate transactions, which they would falsely represent to lenders were provided by the buyers. The scheme caused a loss exposure of approximately \$866,000 to the Enterprises, which bought or secured mortgages on 10 properties.

|                |                   |                                                                                                                  |                |
|----------------|-------------------|------------------------------------------------------------------------------------------------------------------|----------------|
| Stephen King   | Real estate agent | Sentenced to 33 months in prison, 3 years of supervised release, and ordered to pay \$685,704 in restitution.    | March 18, 2015 |
| Euneisha Hearn | Loan officer      | Indicted on one count of conspiracy to commit money laundering and one count of conspiracy to commit bank fraud. | April 9, 2014  |

### Property Flipping Scheme

Paul and others allegedly conspired to provide home buyers with incentives not disclosed to the mortgage lenders. Allegedly, homes were purchased out of foreclosure and “flipped” to buyers for a much higher price, after which the buyers were given “kickbacks.” This scheme caused monetary damages to financial institutions and the Enterprises in excess of \$2 million.

|              |                        |                                                                                      |                |
|--------------|------------------------|--------------------------------------------------------------------------------------|----------------|
| Charles Paul | Loan officer/recruiter | Pled guilty to a one-count information alleging mail, wire, and other fraud charges. | March 17, 2015 |
|--------------|------------------------|--------------------------------------------------------------------------------------|----------------|

### Straw Buyer Scheme

The defendant, owner of Joon Asset Management Corp., orchestrated a straw-buying scheme on a Fannie Mae property.

|                  |                                              |                                                             |               |
|------------------|----------------------------------------------|-------------------------------------------------------------|---------------|
| Patrick Mullings | Owner of Joon Asset Management/scheme leader | Pled guilty to a one-count information charging bank fraud. | March 9, 2015 |
|------------------|----------------------------------------------|-------------------------------------------------------------|---------------|

### Large Origination Scheme

Several individuals, including a branch manager, loan officers, loan processors, real estate agents, and a settlement attorney, originated numerous fraudulent mortgages at Madison Funding, Inc., located in Allentown, Pennsylvania. Over 60 loans originated during the fraud scheme were sold to Fannie Mae and Freddie Mac. Defaults on those mortgages caused losses of over \$1 million to the Enterprises.

|                |                     |                                                                                                                  |                  |
|----------------|---------------------|------------------------------------------------------------------------------------------------------------------|------------------|
| Edward Redding | Settlement attorney | Sentenced to 4 years of probation, 50 hours of community service, and ordered to pay \$244,554 in restitution.   | March 4, 2015    |
| Jose Antigua   | Real estate agent   | Sentenced to 36 months of probation, 50 hours of community service, and ordered to pay \$671,955 in restitution. | December 8, 2014 |

| DEFENDANT             | ROLE                        | MOST RECENT ACTION                                                                                               | DATE              |
|-----------------------|-----------------------------|------------------------------------------------------------------------------------------------------------------|-------------------|
| Melquisidec Caraballo | Real estate agent           | Sentenced to 36 months of probation, 50 hours of community service, and ordered to pay \$671,955 in restitution. | November 21, 2014 |
| Princess Rosario      | Bank representative         | Sentenced to 5 years of probation, 30 hours of community service, and ordered to pay \$456,172 in restitution.   | April 24, 2014    |
| Claribel Gonzalez     | Loan officer                | Sentenced to 12 months of home confinement, 4 years of probation, and ordered to pay \$731,226 in restitution.   | April 4, 2014     |
| Florentina Peralta    | Loan processor              | Sentenced to 3 months in prison, 1 year of supervised release, and ordered to pay \$586,705 in restitution.      | March 27, 2014    |
| Jason Boggs           | Branch manager/loan officer | Sentenced to 16 months in prison, 3 years of supervised release, and ordered to pay \$383,384 in restitution.    | January 31, 2014  |
| Ghovanna Gonzalez     | Loan processor              | Sentenced to 7 days in prison, 3 years of supervised release, and ordered to pay \$762,616 in restitution.       | December 20, 2013 |
| Angela Diaz           | Loan processor              | Sentenced to 5 years of probation, 60 hours of community service, and ordered to pay \$227,000 in restitution.   | November 21, 2013 |
| Denise Peralta        | Loan officer                | Sentenced to 4 years of probation, 60 hours of community service, and ordered to pay a \$500 fine.               | August 16, 2013   |
| Joel Tillett          | General manager             | Sentenced to 4 years in prison, 3 years of supervised release, and ordered to pay \$979,562 in restitution.      | August 14, 2013   |
| Seemon George         | Loan officer                | Sentenced to 2 years in prison, 3 years of supervised release, and ordered to pay \$379,232 in restitution.      | July 23, 2013     |

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

### Loan Manager Indicted in Short Sale Scheme

Lyles and others allegedly conspired to defraud lenders of more than \$1.2 million in a short sale flipping scheme by facilitating fraudulent short sales and subsequent fraudulent loan originations on four properties. Freddie Mac suffered a loss of \$334,328 in one of the transactions.

|                              |                                                              |                                                                               |                   |
|------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------|
| Cristian Rampello            | Former bank employee/provided false verifications            | Sentenced to 2 years of probation and ordered to pay \$10,000 in restitution. | February 27, 2015 |
| Pedro Espada Jr.             | Former bank employee/provided false verifications            | Sentenced to 3 years of probation.                                            | February 27, 2015 |
| Brian Lyles                  | Lead conspirator                                             | Pled guilty to first degree money laundering.                                 | February 11, 2015 |
| BKL Property Management, LLC | Entity controlled/ utilized by Lyles to facilitate the fraud | Pled guilty to second degree theft by deception.                              | February 11, 2015 |
| Sasha Cortes                 | Title company principal/ co-conspirator                      | Pled guilty to second degree theft by deception.                              | October 29, 2013  |

### Wire Fraud and Bank Fraud Scheme

From 2002 to 2007, Totten, a mortgage loan officer, conspired with others to defraud mortgage lenders by inducing them to fund loans based on loan applications that contained false information.

|                   |                                      |                                                                                                               |                    |
|-------------------|--------------------------------------|---------------------------------------------------------------------------------------------------------------|--------------------|
| Jason Kent        | Investor/straw buyer                 | Sentenced to 5 months in prison, 3 months' community confinement, and 5 years of supervised release.          | February 26, 2015  |
| Grant McCollough  | Investor/straw buyer                 | Sentenced to 10 months in prison, 3 years of supervised release, and ordered to pay \$25,746 in restitution.  | February 9, 2015   |
| Marisa McCollough | Investor/straw buyer                 | Sentenced to 4 months in prison and 3 years of supervised release.                                            | February 9, 2015   |
| Donald Totten     | Mortgage loan officer/ scheme leader | Sentenced to 30 months in prison, 3 years of supervised release, and ordered to pay \$717,496 in restitution. | October 24, 2014   |
| Shellie Lockard   | Underwriter                          | Sentenced to 3 years of supervised release and ordered to pay \$11,075 in restitution.                        | September 15, 2014 |

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

## A Loan Origination Fraud Involving Kickbacks to Straw Buyers, Buyers, and Other Participants

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

|                   |                                    |                                                                                                                                                                                                     |                   |
|-------------------|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Enrique Hernandez | Loan officer/straw buyer recruiter | Pled guilty to one count of conspiracy to commit mail fraud affecting a financial institution and bank fraud. Hernandez agreed to pay restitution in the amount of \$899,700 and forfeit \$108,724. | February 23, 2015 |
| Guillermo Rincon  | Straw buyer                        | Pled guilty to one count of conspiracy to commit mail fraud affecting a financial institution and bank fraud.                                                                                       | January 27, 2015  |

## Loan Officers Involved in Mortgage Fraud

Wallis and Brogan allegedly conspired with others to supply down payments for customers of USA Mortgage and use false gift letters to disguise the origin of the down payments. In order to be reimbursed for the down payments and to obtain additional proceeds, false invoices were submitted to title companies purporting to be expenses for repair work completed on the properties.

|                |                         |                                                                                                                  |                   |
|----------------|-------------------------|------------------------------------------------------------------------------------------------------------------|-------------------|
| Michael Wallis | Created false documents | Sentenced to 14 months in prison, 3 years of supervised release, and ordered to pay \$904,923 in restitution.    | February 19, 2015 |
| Joseph Brogan  | Created false documents | Pled guilty to one count of conspiracy to commit bank fraud, two counts of bank fraud, and one forfeiture count. | January 30, 2015  |

## \$3.8 Million Origination Scheme

Agodio and others allegedly participated in a mortgage fraud scheme where the false financial information of unsuspecting immigrants was used to secure \$3.8 million in home mortgage loans to purchase approximately three dozen row houses. All of these properties are now in default or foreclosure.

|                     |  |                                                                                                                                                                                                                 |                   |
|---------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Alberic Okou Agodio |  | Indicted for conspiracy to commit wire fraud affecting a financial institution, wire fraud affecting a financial institution, money laundering, mail fraud, aggravated identity theft, and aiding and abetting. | February 18, 2015 |
|---------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

## \$10 Million Scheme

Several conspirators agreed to defraud mortgage lenders and financial institutions by obtaining over \$10 million in fraudulent mortgages for the purchase of 20 multifamily properties in New Haven, Connecticut.

|                                                             |                                                               |                                                                                                                                                                                                                                                                                                                                                   |                    |
|-------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Ronald Hutchison Jr.                                        | Property investor/<br>former New York<br>correctional officer | Sentenced to 28 months in prison,<br>3 years of supervised release,<br>and ordered to pay \$2,605,036 in<br>restitution.                                                                                                                                                                                                                          | February 9, 2015   |
| Menachem Yosef<br>Levitin (also known as<br>Joseph Levitin) | Real estate company<br>owner/property<br>manager              | Sentenced to 22 months in prison,<br>5 years of supervised release,<br>and ordered to pay \$2,605,036<br>in restitution. As part of his plea,<br>Levitin agreed to forfeit approximately<br>\$163,000, as well as his ownership<br>interests in 19 properties in<br>New Haven, which resulted in over<br>\$1.4 million in net proceeds.           | January 16, 2015   |
| Andrew Constantinou                                         | Former GMAC and<br>Countrywide loan<br>officer                | Sentenced to 60 months in prison,<br>5 years of supervised release,<br>and ordered to pay \$2,105,277 in<br>restitution. In addition, Constantinou<br>was ordered not to engage in the<br>business of mortgage lending.                                                                                                                           | December 16, 2014  |
| Jacques Kelly                                               | Property investor/<br>former New York<br>correctional officer | Sentenced to 15 months'<br>incarceration, 5 years' supervised<br>release, and ordered to pay \$179,769<br>in restitution and \$300 in special<br>assessments.                                                                                                                                                                                     | July 23, 2014      |
| Genevieve Salvatore                                         | Closing attorney                                              | Restitution ordered in the amount<br>of \$1,262,889. On June 3, 2014,<br>Salvatore was ordered suspended<br>as of June 24, 2014, for a period<br>of 6 years to practice law in the<br>state of Connecticut. She was<br>previously sentenced to 24 months'<br>incarceration, 3 years of supervised<br>release, and ordered to forfeit<br>\$19,000. | June 2, 2014       |
| Lawrence Dressler                                           | Closing attorney                                              | Sentenced to 20 months'<br>incarceration, 3 years of supervised<br>release, and ordered to pay restitution<br>of \$403,450, a forfeiture order<br>of \$5,100, and \$100 in special<br>assessments.                                                                                                                                                | March 20, 2014     |
| Kwame Nkrumah<br>(also known as Roger<br>Woodson)           | Owner of real estate<br>company/property<br>manager           | Sentenced to 48 months'<br>incarceration, 5 years of supervised<br>release, and ordered to pay \$2,939<br>restitution and forfeiture of \$113,080.                                                                                                                                                                                                | September 12, 2013 |

| DEFENDANT          | ROLE                             | MOST RECENT ACTION                                                                                                                                                         | DATE              |
|--------------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Charmaine Davis    | Owner of mortgage brokerage firm | Sentenced to 24 months' incarceration, 5 years of supervised release, and ordered to pay a \$6,000 fine and forfeiture of \$39,434.                                        | September 6, 2013 |
| Bradford J. Rieger | Closing attorney                 | Restitution ordered in the amount of \$743,016. Previously sentenced to 24 months' incarceration, 5 years of supervised release, and a \$10,000 fine on November 16, 2012. | January 16, 2013  |
| Jeffrey Weisman    | Closing attorney                 | Pled guilty to one count of conspiracy to commit mail fraud, wire fraud, and bank fraud.                                                                                   | July 10, 2012     |

### Mortgage Broker Committed Mortgage Fraud Involving Freddie Mac Loans

Poynter orchestrated a fraud in which he diverted \$38,000 in loan proceeds to be used as a false down payment by the borrower for the same transaction.

|                |                         |                                                                              |                  |
|----------------|-------------------------|------------------------------------------------------------------------------|------------------|
| Robert Poynter | Created false documents | Sentenced to 1 year confinement and ordered to pay \$123,158 in restitution. | January 26, 2015 |
|----------------|-------------------------|------------------------------------------------------------------------------|------------------|

### A Builder Bailout Scheme Involving Misrepresentations and Kickbacks

Ford allegedly conspired with others to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material fact in the HUD-1 forms.

|                         |              |                                                                                                               |                  |
|-------------------------|--------------|---------------------------------------------------------------------------------------------------------------|------------------|
| Richard Calvin Ford III | Home builder | Sentenced to 37 months in prison, 3 years of supervised release, and ordered to pay restitution of \$433,849. | January 20, 2015 |
|-------------------------|--------------|---------------------------------------------------------------------------------------------------------------|------------------|

### Plea in Short Sale Scheme

Several individuals were allegedly involved in a pattern of short sale schemes, which involved straw buyers and, in certain transactions, the co-conspirators alternately stepping in to carry out the eventual sale at inflated prices. The co-conspirators collectively caused the financial lending institutions to loan out over \$5.5 million, of which over \$2.7 million was their profit from the scheme.

|                               |                                                                    |                                                                                                                      |                   |
|-------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------|
| Samuel Terrell Bell           | Co-conspirator/straw buyer                                         | Pled guilty to conspiracy to commit bank fraud and wire fraud.                                                       | January 8, 2015   |
| Alexander Barrett             | Co-conspirator/mortgage loan officer at Link One Mortgage Bank LLC | Pled guilty to conspiracy to commit bank fraud and wire fraud.                                                       | December 17, 2014 |
| Dirk Ameen Hall               | Lead defendant/real estate buyer/flipper                           | Indicted and charged with one count of conspiracy to commit bank fraud and wire fraud and five counts of bank fraud. | June 20, 2014     |
| Michelle Baker                | Title agent                                                        | Indicted and charged with one count of conspiracy to commit bank fraud and wire fraud and five counts of bank fraud. | June 20, 2014     |
| Barthelemy "Bart" Adjavehoude | Straw buyer                                                        | Indicted and charged with one count of conspiracy to commit bank fraud and wire fraud and five counts of bank fraud. | June 20, 2014     |

| DEFENDANT      | ROLE                              | MOST RECENT ACTION                                                                                                   | DATE          |
|----------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------|
| James Bayfield | Foreclosure/straw buyer recruiter | Indicted and charged with one count of conspiracy to commit bank fraud and wire fraud and five counts of bank fraud. | June 20, 2014 |

### Husband and Wife Defraud Elderly Victim

Kistler allegedly defrauded an elderly victim of more than \$200,000 in funds during a real estate transaction on a Fannie Mae loan.

|              |                |                                      |                   |
|--------------|----------------|--------------------------------------|-------------------|
| Mark Kistler | Created scheme | Indicted on one count of bank fraud. | December 17, 2014 |
|--------------|----------------|--------------------------------------|-------------------|

### Sentencing in Origination Scheme

Several individuals conspired to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material fact in HUD-1 forms, Settlement Statements, loan applications, and other loan documents. The scheme caused estimated losses of \$967,989 to Fannie Mae and \$130,265 to Freddie Mac.

|                 |                          |                                                                                                                                 |                   |
|-----------------|--------------------------|---------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Scott Sherman   | Builder                  | Sentenced to 20 months in prison, 1 year of supervised release, and ordered to pay \$493,500 in restitution and a \$7,500 fine. | November 13, 2014 |
| Donna Cobb      | Escrow officer           | Sentenced to 21 months' incarceration, 3 years of supervised release, and ordered to pay \$2,151,376 in restitution.            | May 28, 2014      |
| Donald Mattox   | Home builder/straw buyer | Sentenced to 10 months and 14 days' incarceration, 2 years of supervised release, and ordered to pay \$964,244 in restitution.  | May 15, 2014      |
| Michael Edwards | Loan officer             | Sentenced to 51 months' incarceration, 1 year of supervised release, and ordered to pay \$1,300,402 in restitution.             | April 22, 2014    |
| Lawrence Day    | Recruiter                | Pled guilty to one count of conspiracy to commit mail and wire fraud affecting a financial institution.                         | March 25, 2014    |

### Identity Theft Used to Obtain Fraudulent Mortgages

Sanchez allegedly used a stolen identity to apply for two loans, including a Freddie Mac loan for \$233,600 and a Fannie Mae loan for \$222,400.

|                 |               |                                                                        |                  |
|-----------------|---------------|------------------------------------------------------------------------|------------------|
| Ernesto Sanchez | Scheme leader | Charged with violation of grand theft and organized scheme to defraud. | October 15, 2014 |
|-----------------|---------------|------------------------------------------------------------------------|------------------|

### Real Estate Agent Involved in Origination Fraud

Subject allegedly completed false loan applications for straw buyers of residential properties. The scheme resulted in a loss to the GSEs of approximately \$2.5 million.

|          |  |                                                                                                                                                      |                 |
|----------|--|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| David Ho |  | Charged with conspiracy, bank fraud, false statements to a financial institution, subscribing to a false income tax return, and aiding and abetting. | October 1, 2014 |
|----------|--|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|

# Appendix H: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower intentionally misrepresenting or not disclosing material facts to induce a lender to agree to a short sale to which it would not otherwise agree.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

## Two Sentenced in Non-Arm’s Length Short Sale

Sanchez, a licensed real estate agent, recommended that Simon, her client, undertake a short sale of his home using her son as a straw buyer.

| DEFENDANT       | ROLE              | MOST RECENT ACTION                                                                                                                      | DATE              |
|-----------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Agustin Simon   | Homeowner         | Sentenced to 15 months in prison, 60 months of supervised released, and ordered to pay \$421,372 in restitution, jointly and severally. | March 2, 2015     |
| Minerva Sanchez | Real estate agent | Sentenced to 21 months in prison, 3 years of supervised release, and ordered to pay \$421,372 in restitution, jointly and severally.    | February 17, 2015 |

## Three Pleas in Short Sale Scheme

Conspirators allegedly engaged in several schemes to fraudulently obtain money, including: a “flopping” scheme where banks were convinced to accept short sale prices that were lower than a legitimate buyer would be willing to pay; recording false second and third liens; tricking distressed homeowners into signing their properties over to criminal actors; and renting distressed properties while simultaneously stalling foreclosure through the use of fraudulent documents.

| DEFENDANT        | ROLE                                                                      | MOST RECENT ACTION                                                                                                                 | DATE             |
|------------------|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Lindsay Petty    | Generated false/forged documents                                          | Pled guilty to grand theft and conspiracy to commit mortgage fraud.                                                                | January 29, 2015 |
| Delia Wolfe      | Assisted with shell companies and opened bank accounts used in the scheme | Pled guilty to forgery.                                                                                                            | January 29, 2015 |
| James Styring    | Generated and filed false/forged documents                                | Pled guilty to grand theft and mortgage fraud.                                                                                     | October 1, 2014  |
| Deanna Bashara   | Property manager for rent scheme                                          | Charged with conspiracy, grand theft, and mortgage fraud.                                                                          | June 25, 2014    |
| Jackalyn Bashara | Scheme leader and licensed real estate salesperson                        | Charged with conspiracy, grand theft, mortgage fraud, forgery, burglary, receiving stolen property, and filing a false tax return. | June 25, 2014    |

| DEFENDANT     | ROLE                                                                                                    | MOST RECENT ACTION                                                                                                                                                                | DATE          |
|---------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Billie Bryant | Straw buyer and opened bank accounts used in the scheme                                                 | Charged with conspiracy, grand theft, mortgage fraud, forgery, and receiving stolen property.                                                                                     | June 25, 2014 |
| Gerald Bryant | Straw buyer and opened bank accounts used in the scheme                                                 | Charged with conspiracy, grand theft, mortgage fraud, and receiving stolen property.                                                                                              | June 25, 2014 |
| Jered Bryant  | Intimidated victims and collected rent generated by the scheme                                          | Charged with conspiracy, grand theft, mortgage fraud, forgery, and burglary.                                                                                                      | June 25, 2014 |
| Brian Deden   | Notary/licensed real estate broker                                                                      | Charged with conspiracy, grand theft, mortgage fraud, and forgery.                                                                                                                | June 25, 2014 |
| Joseph Jaime  | Licensed real estate salesperson/facilitated short sales, filed false documents, and threatened victims | Charged with conspiracy, grand theft, mortgage fraud, forgery, perjury, bribery of a witness, and intimidation of a witness.                                                      | June 25, 2014 |
| Eric Wolfe    | Scheme leader/licensed real estate broker                                                               | Charged with conspiracy, grand theft, mortgage fraud, forgery, preparing false documentary evidence, criminal threats, filing false tax returns, and failure to file tax returns. | June 25, 2014 |

### Attorney and Others Involved in Short Sale Mortgage Fraud

Foley allegedly submitted false documents and recruited a straw buyer to support a short sale transaction where the property was deeded back to Foley. This scheme caused a loss to Freddie Mac of approximately \$148,000.

|            |                           |                            |                  |
|------------|---------------------------|----------------------------|------------------|
| Gary Foley | Organized scheme/attorney | Pled guilty to wire fraud. | January 23, 2015 |
|------------|---------------------------|----------------------------|------------------|

### Short Sale Fraud

Wendy Thomas and co-conspirators allegedly engaged in a “flopping” short sale scheme where they profited from fraud against distressed homeowners, banks, third-party home buyers, and the Enterprises.

|              |                         |                                                                                                                                |                  |
|--------------|-------------------------|--------------------------------------------------------------------------------------------------------------------------------|------------------|
| Wendy Thomas | Created false documents | Pled guilty to money laundering and theft. Sentenced to 4 years’ probation and ordered to pay \$31,007 in restitution.         | January 13, 2015 |
| Duane Thomas | Co-conspirator          | Pled guilty to felony theft. Sentenced to 4 years’ “deferred sentence” and ordered to pay \$11,727 in restitution.             | January 13, 2015 |
| Kurt Smith   | Co-conspirator          | Pled guilty to felony criminal mischief. Sentenced to 4 years’ “deferred sentence” and ordered to pay \$31,007 in restitution. | January 13, 2015 |

| DEFENDANT          | ROLE           | MOST RECENT ACTION                                                                                                                                  | DATE               |
|--------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Cristina Smith     | Co-conspirator | Pled guilty to felony theft and conspiracy to commit theft. Sentenced to 4 years of probation and ordered to pay \$31,007 in restitution.           | January 13, 2015   |
| Christopher Consol | Co-conspirator | Pled guilty to felony money laundering and misdemeanor theft. Sentenced to 4 years' "deferred sentence" and ordered to pay \$31,007 in restitution. | January 13, 2015   |
| Sheila Giberti     | Co-conspirator | Sentenced to 2 years of supervised release and ordered to pay \$3,286 in restitution.                                                               | September 11, 2014 |
| Sheila Gaston      | Co-conspirator | Pled guilty to felony conspiracy to commit theft. Sentenced to 2 years of supervised release and ordered to pay \$7,264 in restitution.             | June 12, 2014      |

### Former Loan Officer Charged

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

|                |                      |                                                                                                                                                               |                   |
|----------------|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Joseph DiValli | Loan officer         | Indicted for conspiracy to commit wire fraud and six counts of wire fraud.                                                                                    | December 18, 2014 |
| Paul Chemidlin | Unlicensed appraiser | Pled guilty to a one-count information with conspiracy to commit wire fraud and one count of distribution and possession with intent to distribute Methylone. | July 22, 2014     |
| Delio Coutinho | Loan officer         | Pled guilty to a one-count information with conspiracy to commit wire fraud.                                                                                  | April 22, 2014    |



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

These schemes prey on desperate homeowners. Businesses advertise that they can secure loan modifications, provided that the homeowners pay significant upfront fees. Typically, these businesses take little or no action, leaving homeowners in a worse position.

| <br>DEFENDANT | <br>ROLE | <br>MOST RECENT ACTION | <br>DATE |
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|

## Loan Origination Fraud

Ellis and co-conspirators were allegedly involved in a flipping scheme where they purchased homes and then flipped them using straw buyers and bogus appraisals reflecting much higher than the actual value of the homes. They also allegedly falsified documents. Approximately 26 properties were involved in this scheme, all of which were foreclosed or sold by short sale.

|                |                   |                                                                                                                  |                 |
|----------------|-------------------|------------------------------------------------------------------------------------------------------------------|-----------------|
| Brigette Ellis | Loan officer      | Sentenced to 8 months' incarceration, 1 year of supervised release, and ordered to pay \$455,202 in restitution. | March 30, 2015  |
| Hoa Perkins    | Real estate agent | Indicted on one count of conspiracy to commit money laundering.                                                  | October 9, 2013 |

## Home Loan Modification Scheme Involving GSEs

Starting in 2009, the defendants allegedly conspired to defraud distressed homeowners and the GSEs with a loan modification scam that impacted more than 10,000 victims nationwide.

|                                           |                              |                                                                                                                                                                 |                   |
|-------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Chad Gettel                               | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |
| John McCall                               | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |
| Noemi Lozano (also known as Noemi Sayama) | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |

| DEFENDANT           | ROLE                         | MOST RECENT ACTION                                                                                                                                              | DATE              |
|---------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Sheridan Black      | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |
| James Scott Creasey | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |
| Jeremiah Barrett    | Co-conspirator/<br>recruiter | Charged in a 40-count indictment alleging conspiracy, mail fraud, wire fraud, telemarketing fraud, conspiracy to commit money laundering, and money laundering. | February 25, 2015 |

### Plea and Multiple Charges in Loan Modification Scheme

Pelayo and others allegedly conspired to operate a loan modification scheme. Co-conspirators allegedly made false promises and guarantees to financially distressed homeowners regarding their company's ability to negotiate loan modifications from the homeowner's mortgage lenders, as well as false guarantees of specific interest rates and mortgage payments.

|                    |                                                                |                                                                                                                  |                   |
|--------------------|----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-------------------|
| Iris Pelayo        | Appointment setter                                             | Pled guilty to conspiracy to commit mail fraud.                                                                  | January 28, 2015  |
| Michael Bates      | Sales employee                                                 | Charged with mail and wire fraud affecting a financial institution and conspiracy to commit mail and wire fraud. | December 10, 2014 |
| Crystal Buck       | Sales employee                                                 | Charged with mail and wire fraud affecting a financial institution and conspiracy to commit mail and wire fraud. | December 10, 2014 |
| Andrea Ramirez     | Scheme leader                                                  | Charged with mail and wire fraud affecting a financial institution and conspiracy to commit mail and wire fraud. | December 10, 2014 |
| Albert DiRoberto   | Sales employee                                                 | Charged with mail and wire fraud affecting a financial institution and conspiracy to commit mail and wire fraud. | December 10, 2014 |
| Christopher George | Co-owner of company                                            | Charged with mail and wire fraud affecting a financial institution and conspiracy to commit mail and wire fraud. | December 10, 2014 |
| Catalina Deleon    | Received customer complaints and managed processing department | Charged with mail and wire fraud and conspiracy to commit mail and wire fraud.                                   | September 5, 2012 |
| Mindy Holt         | Supervised processing department                               | Charged with mail and wire fraud and conspiracy to commit mail and wire fraud.                                   | September 5, 2012 |

| DEFENDANT      | ROLE                                                                                                                                      | MOST RECENT ACTION                                                             | DATE              |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-------------------|
| Yadira Padilla | Handled customer complaints and refund requests                                                                                           | Charged with mail and wire fraud and conspiracy to commit mail and wire fraud. | September 5, 2012 |
| Michael Parker | Sales employee                                                                                                                            | Charged with mail and wire fraud and conspiracy to commit mail and wire fraud. | September 5, 2012 |
| Hamid Shalviri | Directed distressed homeowners to sign their properties over to him and then to pay him "rent" while the loan modification was in process | Charged with mail and wire fraud and conspiracy to commit mail and wire fraud. | September 5, 2012 |

### Foreclosure Rescue and Loan Modification Scheme

Caballero engaged in a foreclosure rescue/loan modification scheme where he solicited and accepted payments from homeowners to modify their loans, submitted false loan documentation in homeowners' names to lenders, and fraudulently accepted rents and mortgage payments while not forwarding these payments to lenders.

|                        |                |                                                                        |                  |
|------------------------|----------------|------------------------------------------------------------------------|------------------|
| Jose Antonio Caballero | Owner/operator | Pled guilty to one count of making a false transaction to HUD and FHA. | January 28, 2015 |
|------------------------|----------------|------------------------------------------------------------------------|------------------|

### Foreclosure Delay Scheme

Co-conspirators collected approximately \$5.9 million in proceeds from a foreclosure/eviction delay scheme involving at least 237 fraudulent bankruptcies.

|                   |                                                                                                            |                                                                                      |                   |
|-------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-------------------|
| Jahi Kokayi       | Filed foreclosure delay deeds with county recorder's office                                                | Sentenced to 30 days' confinement and 3 years of supervised release.                 | January 21, 2015  |
| Thomas Powell     | Business partner with Elasadi and Bachmeier                                                                | Sentenced to 120 days' confinement and 5 years of supervised release.                | December 9, 2014  |
| Karl Robinson     | Scheme leader                                                                                              | Sentenced to 180 days' confinement (72 suspended) and 5 years of supervised release. | September 3, 2014 |
| Yamen Elasadi     | Business partner with Bachmeier and Powell                                                                 | Sentenced to 120 days' confinement and 5 years of supervised release.                | July 22, 2014     |
| Michael Bachmeier | Initially a Robinson client; subsequently started his own foreclosure delay scheme with Powell and Elasadi | Sentenced to 30 days' confinement and 3 years of supervised release.                 | June 11, 2014     |

### Loan Modification Scheme

Baker, working with another individual, formed Wayne County Loan Modification in late 2009. Using deceptive business practices, the company defrauded homeowners who were desperate to modify their mortgages.

|               |  |                                                                                       |                   |
|---------------|--|---------------------------------------------------------------------------------------|-------------------|
| Jeffrey Baker |  | Sentenced to 6 months' incarceration (time served) and 3 years of supervised release. | December 12, 2014 |
|---------------|--|---------------------------------------------------------------------------------------|-------------------|

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

### Foreclosure Rescue Scheme

Co-conspirators collected in excess of \$4.9 million in proceeds from a foreclosure/eviction delay scheme involving at least 1,000 homeowners, mostly in northern California. To prevent foreclosure, the defendants filed fraudulent deeds and also filed fraudulent petitions in bankruptcy court. All were previously sentenced; below are the details of restitution payments ordered during this reporting period.

|                                              |                                                                                                       |                                                                                                                                                                                   |                   |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Jewel Hinkles (also known as Cydney Sanchez) | Scheme leader                                                                                         | Found to be jointly and severally liable with Medearis, Corn, and Wheeler for restitution in the amount of \$5,105,599.                                                           | November 18, 2014 |
| Jesse Wheeler                                | Promoted Sanchez's program to homeowners; assisted in production and filing of deeds and bankruptcies | Found to be jointly and severally liable with Hinkles for restitution in the amount of \$2,212,809.                                                                               | November 14, 2014 |
| Brent Medearis                               | Promoted Sanchez's program to homeowners; assisted in production and filing of deeds and bankruptcies | Found to be jointly and severally liable with Hinkles and Corn for restitution in the amount of \$193,500.                                                                        | November 13, 2014 |
| Cynthia Corn                                 | Promoted Sanchez's program to homeowners; assisted in production and filing of deeds and bankruptcies | Found to be jointly and severally liable with Hinkles and Medearis for restitution in the amount of \$2,130,348 (Hinkles for the entire \$2,130,348, and Medearis for \$193,500). | November 13, 2014 |

### Loan Modification Scheme

Jalan allegedly operated a scheme to defraud distressed homeowners by representing that she was an attorney offering loan modification services. Jalan is alleged to have failed to disclose that the Consumer Financial Protection Bureau had obtained a preliminary injunction that prohibited her from offering loan modification services.

|             |               |                                                                                                                               |                  |
|-------------|---------------|-------------------------------------------------------------------------------------------------------------------------------|------------------|
| Najia Jalan | Scheme leader | Charged with mail and wire fraud, aggravated identity theft, false statements in a bankruptcy, bankruptcy fraud, and perjury. | October 29, 2014 |
|-------------|---------------|-------------------------------------------------------------------------------------------------------------------------------|------------------|

# Appendix J: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes

The wave of foreclosures following the housing crisis left the Enterprises with a large inventory of REO properties. This large REO inventory has sparked a number of different schemes to either defraud the Enterprises, who use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.



DEFENDANT



ROLE



MOST RECENT ACTION



DATE

## False REO Escrow Scheme

In 2011, Leyva allegedly created a fictitious escrow company and falsely claimed to have the right and authority to sell foreclosed properties owned by the Enterprises at a significant discount. The scheme resulted in victim losses of at least \$500,000.

|             |  |                                                   |                   |
|-------------|--|---------------------------------------------------|-------------------|
| Ralph Leyva |  | Charged with grand theft and commercial burglary. | December 23, 2014 |
|-------------|--|---------------------------------------------------|-------------------|

## Enterprise REO Fraud Scheme

Goldstein allegedly claimed he was able to sell Enterprise properties at significantly reduced prices. He allegedly fabricated documents claiming to have access to REO properties through a program he referred to as the Freddie Mac and Fannie Mae “10 Block” program.

|                 |                  |                                                                              |                   |
|-----------------|------------------|------------------------------------------------------------------------------|-------------------|
| Scott Goldstein | Sole conspirator | Indicted for wire fraud and mail fraud; charges included a forfeiture count. | December 10, 2014 |
|-----------------|------------------|------------------------------------------------------------------------------|-------------------|



# Appendix K: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties.

| <br>DEFENDANT | <br>ROLE | <br>MOST RECENT ACTION | <br>DATE |
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|

## Deed Theft Scheme

Subjects allegedly operated a scheme to steal Fannie Mae and Freddie Mac properties by filing forged grant deeds and then selling the stolen properties to unwitting investors. At least 10 Enterprise properties were stolen, which caused a loss of over \$2.5 million.

|                |                                                                    |                                                              |                   |
|----------------|--------------------------------------------------------------------|--------------------------------------------------------------|-------------------|
| Daniel Deaibes | Interacted with escrow companies during sales of stolen properties | Pled guilty to mail fraud.                                   | March 18, 2015    |
| Mohamad Daoud  | Allowed his company to be used to obscure chain of title           | Charged with conspiracy to commit mail fraud and wire fraud. | December 9, 2014  |
| Mazen Alzoubi  | Scheme leader                                                      | Charged with mail fraud.                                     | November 19, 2014 |

## Deed Theft Suspect Convicted/Sentenced

The defendant operated a scheme whereby he falsely deeded multiple properties into his name, the name of a business, or an alias and then advertised the properties for rent online.

|              |                  |                                                                                              |                   |
|--------------|------------------|----------------------------------------------------------------------------------------------|-------------------|
| Robert Kosch | Sole conspirator | Sentenced to 20 years in prison with a 6-year stipulation after being found guilty at trial. | December 12, 2014 |
|--------------|------------------|----------------------------------------------------------------------------------------------|-------------------|

## Two Charged with Squatting

Smith allegedly filed false documents with the King County Recorder’s Office in an attempt to fraudulently acquire title to the home in which he was living. Smith also allegedly filed false documents to acquire three other properties along with co-defendant Gaines.

|                  |                         |                                                                                |                  |
|------------------|-------------------------|--------------------------------------------------------------------------------|------------------|
| Helen Gaines     | Co-conspirator/squatter | Charged with false representation concerning a title.                          | October 27, 2014 |
| Cristopher Smith | Co-conspirator/squatter | Charged with residential burglary and false representation concerning a title. | October 23, 2014 |

| DEFENDANT | ROLE | MOST RECENT ACTION | DATE |
|-----------|------|--------------------|------|
|-----------|------|--------------------|------|

**Adverse Possession; Sovereign Citizen Sentenced**

Farmer, a self-proclaimed sovereign citizen living in Memphis, Tennessee, submitted a fictitious quit claim deed to the Shelby County Clerk of Courts, thereby falsely claiming ownership of a Fannie Mae REO property.

|                |                  |                                 |                 |
|----------------|------------------|---------------------------------|-----------------|
| Devitoe Farmer | Sole conspirator | Sentenced to 8 years in prison. | October 3, 2014 |
|----------------|------------------|---------------------------------|-----------------|



# Appendix L: Figure Sources

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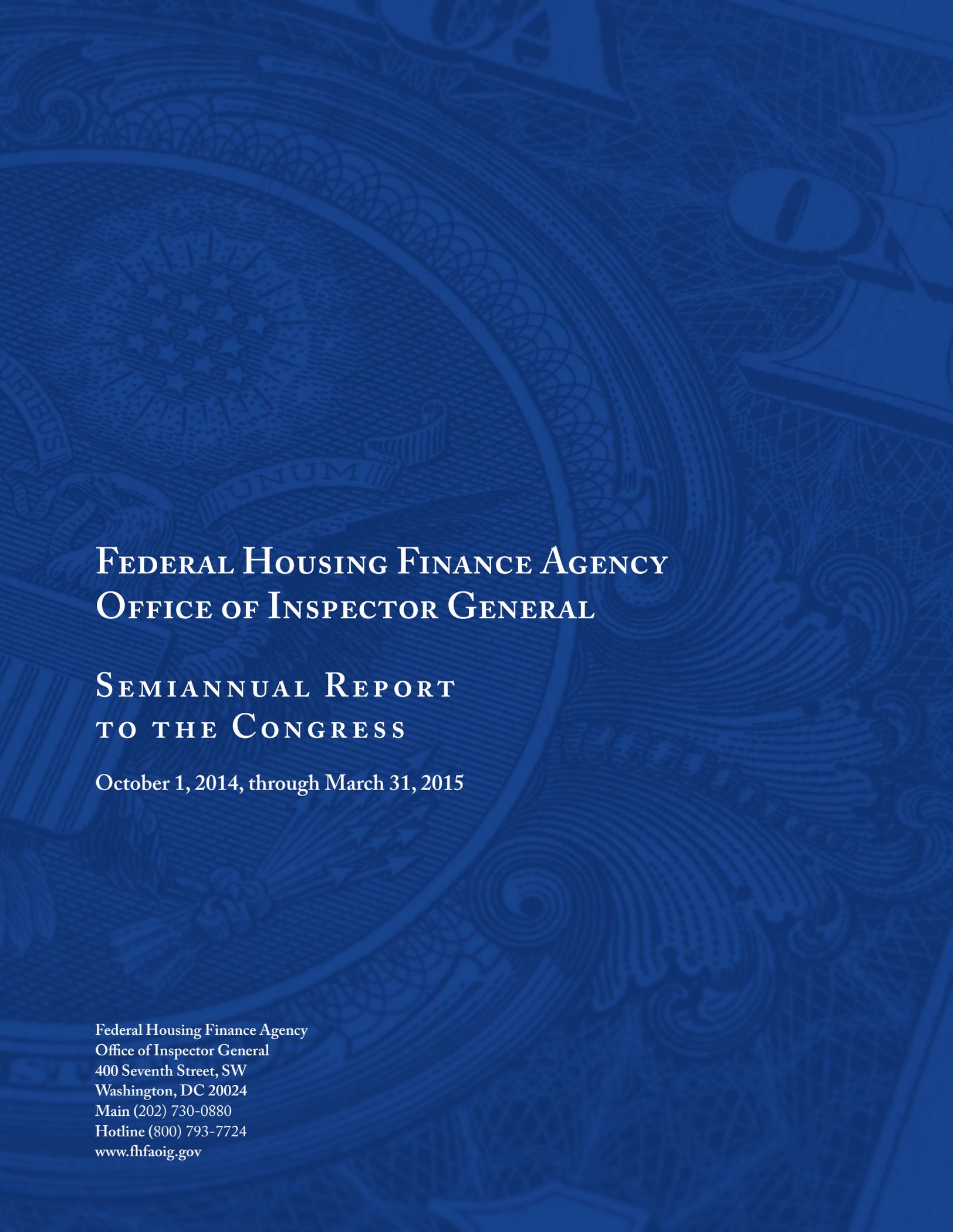
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