OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

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

TO: Edward J. DeMarco, Director (Acting)

FROM: Steve A. Linick, Inspector General

SUBJECT: Systemic Implication Report: Enterprise Oversight of Property Preservation Inspections (SIR-2013-0002)
OIG: I-12-0081

DATE: November 26, 2012

Attached is a Systemic Implication Report (SIR) prepared by the FHFA-OIG Office of Investigations identifying a possible risk in the Enterprise oversight of Property Preservation inspections. As discussed in the report, the contractor, American Mortgage Field Services (AMFS), was hired by the servicer to conduct property preservation inspections and then fraudulently submitted over $12.7 million in claims for inspection reports for properties owned by the Enterprises. Since these inspections are critical to property preservation and public safety, we recommend that FHFA assess whether the Enterprises are adequately overseeing property preservation inspections to ensure that the value of Fannie Mae and Freddie Mac property is being protected.

I would appreciate if the Agency could respond to OIG's recommendation by December 10, 2012. Please let me know if you have any questions or concerns.

cc: Bruce Crandlemire, Advisor to the Director

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

TO: Steve A. Linick, Inspector General

FROM: Peter C. Emerzian, Deputy Inspector General, Office of Investigations

SUBJECT: Enterprise Oversight of Property Preservation Inspections (SIR-2013-0002)
OIG: I-12-0081

DATE: November 26, 2012

We conducted an investigation of American Mortgage Field Services LLC (AMFS), a company hired by Bank of America to conduct asset preservation inspections of Fannie Mae and Freddie Mac properties. The investigation disclosed a problem, which may be systemic throughout the industry that is causing fraudulent invoices for inspections to be paid by Fannie Mae and Freddie Mac.

Background

Fannie Mae and Freddie Mac pay servicers, such as Bank of America, to provide property preservation of properties owned by Fannie Mae and Freddie Mac. These servicers agreed to arrange for securing and periodic inspections of properties that were ultimately paid for by Fannie Mae and Freddie Mac.

AMFS entered into a contract with Bank of America to perform inspections of Fannie Mae and Freddie Mac properties and to submit inspection reports. In exchange, Bank of America agreed to pay AMFS a specified amount per inspection, which Bank of America ultimately billed back to Fannie Mae and Freddie Mac.

Analysis

From approximately 2009 to March 2012, AMFS created fraudulent and false property inspections reports that they electronically submitted to various servicers, including Bank of America. These inspections were supposed to be performed on properties that were in various stages of foreclosure. The inspection reports were not only to make sure the properties were properly preserved, but also to prevent safety hazards, such as uncovered swimming pools, in the affected neighborhoods.

AMFS agreed to accept payment to inspect as many as 100,000 properties a month in Florida and other states. AMFS submitted inspection reports for numerous properties that AMFS

employees never inspected. In addition, AMFS employees were directed to create false inspection reports by inserting photographs from previous reports and changing the dates to create the illusion that new inspections had been conducted when no such inspections had been performed. Bank of America paid AMFS $6.50 per inspection report, amounting to $700,000 to $1 million per month, totaling over $19 million. The investigation disclosed that between at least 2009 through March 13, 2012, AMFS falsified up to 70% of the property inspections and therefore fraudulently received approximately $12.7 million for property inspections never conducted.

Fannie Mae and Freddie Mac both have contracts with servicers to maintain their inventories of properties throughout the country. The servicers hire contractors, like AMFS, to perform routine maintenance and inspections to protect the properties and prevent public safety hazards. Based on the results of this investigation in that AMFS employees were able to submit false inspection reports undetected over a period of several years, it appears that the processes in place to evaluate and determine the contractor's capability or capacity to perform the services may not be as effective as necessary.

On September 14, 2012, Dean Counce, President of AMFS, pleaded guilty to Conspiracy to Commit Wire Fraud for his role in submitting the false inspection reports. He is scheduled to be sentenced in January 2013. In his plea agreement, Counce acknowledged that AMFS did not have the capacity to conduct the inspections and that his employees were not properly trained to conduct the inspections. These deficiencies went undetected by the servicers and the GSEs for over three years.

Recommendation

It is recommended that FHFA assess whether the GSEs are adequately overseeing property preservation inspections to ensure that the value of Fannie Mae and Freddie Mac assets are protected.

Federal Housing Finance Agency

MEMORANDUM

TO: Peter C. Emerzian, Deputy Inspector General, Office of Investigations

FROM: Jon D. Greenlee, Deputy Director, Division of Enterprise Regulation

SUBJECT: FHFA Response – Systemic Implication Report: *Enterprise Oversight of Property Preservation Inspections* (SIR 2013-0002)

DATE: December 18, 2012

This memorandum responds to the memorandum dated November 26, 2012, from Inspector General Linick to Acting Director DeMarco regarding a possible risk relating to Enterprise oversight of property preservation inspections. As noted in the Inspector General's communication, FHFA-OIG recommends that FHFA assess whether the Enterprises are adequately overseeing property preservation inspections to ensure that the value of Fannie Mae and Freddie Mac property is being protected.

We appreciate the feedback you have provided based on your recent investigation of a vendor retained to perform property inspections by one of the Enterprises' largest servicers. The vendor's prosecution for misconduct and submission of false reports to the servicer highlights the importance of ensuring adequate oversight of servicers and their subcontractors to ensure the protection of the value of Enterprise assets. FHFA conducts extensive supervisory work related to the Enterprises' oversight of servicers, which can also include servicers' sub-contractors.

We have shared the information in the November 26 memorandum with the Enterprise Examiners-in-Charge, who will advise members of the examination teams as appropriate to ensure that this information is factored into planning and performance of Enterprise examinations and ongoing monitoring in 2013. Moreover, we will ensure that appropriate staff at the Enterprises is advised of the investigation so that the Enterprises are able to review and determine whether additional oversight activities are needed.

Thank you for bringing this investigation to our attention. We would be happy to discuss the risk issues further with you or with FHFA-OIG staff participating in the current audit of FHFA's oversight of Enterprise controls over single-family property inspections of real estate owned by the Enterprises (AUD 2013-002).