

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF THE INSPECTOR GENERAL

MEMORANDUM OF ACTIVITY

On March 3, 2011, Raymond G. ROMANO, Executive Vice President/Chief Credit Officer, Federal Home Loan Mortgage Corporation (FHLMC), also known as "Freddie Mac", was interviewed in the U.S. Attorney's Office, Alexandria, Virginia by Trial Attorney Rob Zink; Assistant United States Attorney Charles Connolly, U. S. Department of Justice; and Special Agent Peter C. Emerzian, Federal Housing Finance Agency, Office of Inspector General (FHFA-OIG). Also present were FHLMC attorneys (b)(7)(C) and (b)(7)(C) and attorneys (b)(7)(C) and (b)(7)(C) Wiltshire & Grannis, LLP, 1200 18th Street-Suite 1200, Washington, D.C. 20036. ROMANO was advised of the identities of the interviewing attorneys and agents and the purpose of the interview. ROMANO had previously been interviewed on September 3, 2010 and the following information is in addition to the information he previously provided. Prior to the interview ZINK informed ROMANO that his testimony had to be truthful. ROMANO then provided the following information:

ROMANO advised FHLMC buys and guarantees mortgages, then packages the mortgages into mortgage backed securities (MBS). The MBS are then sold to investors, who receive a monthly payment from the MBS. The investors that purchase the FHLMC MBS are large investors, such as insurance companies and retirement fund managers, not individuals. FHLMC makes money from the fees they earn for guaranteeing the mortgages. If the mortgagor fails to make the mortgage payment and the mortgage goes into default, FHLMC will pay off the mortgage.

ROMANO advised FHLMC usually purchases 30 year fixed rate mortgages, but occasionally purchases adjustable rate mortgages (ARM). The mortgages purchased by FHLMC also had requirements and restrictions as to the amount of the mortgage, credit worthiness of the mortgagor, underwriting quality, and other rules and regulations. ROMANO advised the mortgages purchased by FHLMC must meet these requirements or the servicers will have to buy back or repurchase the mortgages from FHLMC.

ROMANO advised that when FHLMC purchased mortgages they are usually serviced by the mortgage companies or financial institutions that sold the mortgages to FHLMC. The mortgage companies/financial institutions servicing the mortgages are known as "servicers". ROMANO explained the mortgagor sends their mortgage payment, which includes the principal and interest ("P & I"), to the servicers. The P & I payments are required to be placed into a FHLMC custodial account to be sent to FHLMC on the required date. ROMANO

(b)(4)

Activity: Interview of Raymond Romano

Date Prepared: March 3, 2011
Location: Alexandria, VA

By: Peter C. Emerzian

Case/Reference No.: I-11-0077

PE

This document contains neither recommendations nor conclusions of the Federal Housing Finance Agency, Office of the Inspector General. It is the property of the OIG and neither the document nor its contents should be disseminated without prior OIG authorization.

MEMORANDUM OF ACTIVITY

Activity: Interview of Raymond Romano

Case File/Reference No.: I-11-0077

Date Prepared: March 3, 2011

[Redacted]

(b)(4)

ROMANO

(b)(4)

ROMANO has knowledge of the Taylor, Bean, & Whitaker Mortgage Company (TBW) because it did business with FHLMC. ROMANO advised TBW was a “third party originator” and explained that TBW purchased mortgages from community banks or small mortgage companies and sold them to FHLMC. ROMANO had always been concerned about the financial condition of TBW, especially their ability and obligation to repurchase defective mortgages they sold to FHLMC. ROMANO advised a defective mortgage could include one or more of the following problems:

- Fraud
- Improper loan to income ratios
- Mathematical mistakes
- Invalid appraisals
- Invalid mortgage amounts

ROMANO advised that FHLMC reviewed both performing and non-performing mortgages. ROMANO described performing mortgages as new mortgages where the mortgage payments were being paid and non-performing as mortgages where the mortgage payments were delinquent or in foreclosure. ROMANO advised [Redacted]

[Redacted]

(b)(4)

ROMANO opined that if FHLMC had seized the MSR's from TBW they would have gone out of business. ROMANO advised he discussed this with Lee FARKAS, TBW's Chairman, and other TBW managers, who all understood that if FHLMC seized TBW's MSR's, TBW would go out of business and/or bankrupt. As a precaution, ROMANO made sure FHLMC had access to the TBW custodial accounts, mortgage tapes, and copies of the mortgage files.

ROMANO identified Paul ALLEN, TBW Chief Executive Officer (CEO) as one of the TBW managers with whom he discussed his concerns regarding TBW's financial situation. ROMANO knew ALLEN professionally from working with him at another job. ROMANO also knew ALLEN and [Redacted] ALLEN provided logical explanations to ROMANO's concerns, but ROMANO still had concerns and in 2009 ALLEN's explanations were no longer logical. Before 2009, ALLEN had explained TBW was generating capital, something no other servicer was able to do, through Ocala Funding (OF). ROMANO accepted ALLEN's explanations because ALLEN

MEMORANDUM OF ACTIVITY

Activity: Interview of Raymond Romano
Case File/Reference No.: I-11-0077
Date Prepared: March 3, 2011

was very smart, respected in the industry, and his friend. In addition, other professional investors, such as Deutsche Bank, BNP Paribas, and Bank of America were investing in OF. ROMANO advised that even though FARKAS was very knowledgeable in the mortgage industry, FARKAS was not as credible as ALLEN.

In 2008 - 2009, ROMANO read that TBW was going to invest over \$100 million in Colonial Bank ("Colonial") to help Colonial secure Troubled Asset Relief Program (TARP) funds. ROMANO was concerned because he had been trying for years to get TBW to post funds/collateral to ensure TBW would be able to repurchase defective mortgages. ROMANO advised that FARKAS had always told him TBW did not have the funds available. ROMANO felt that if TBW had over \$100 million to invest in Colonial they should have funds to post to FHLMC as collateral for repurchases. ROMANO advised that he could not determine where the funds were coming from by looking at TBW's financial statements. ROMANO was also concerned because Colonial provided a significant amount of funding to TBW, and if Colonial went under TBW would not have access to funding/capital and would also go out of business. ROMANO recalled a meeting in April 2009, at the FHLMC offices in McLean, Virginia with FARKAS and ALLEN and maybe TBW's President Ray BOWMAN. During the meeting ROMANO asked FARKAS where they were getting over \$100 million to invest in Colonial. FARKAS told ROMANO they had hedged against interest rates. ROMANO told FARKAS he must have been nervous, because to have made over \$100 million hedging interest rates, he must have risked billions of dollars. FARKAS told ROMANO he did not see the hedging as that risky and ROMANO asked for a copy of his hedging policy.

ROMANO met with FARKAS in the TBW offices in Ocala, Florida in June 2009 to discuss posting collateral to FHLMC, FHLMC investing in OF, and to determine the status of the TBW financial statements. ROMANO advised [REDACTED]

(b)(4)

ROMANO advised [REDACTED]

(b)(4)

ROMANO advised Deloitte and

Touche were responsible for auditing TBW's financial statements. At the June 2009 meeting, FARKAS agreed to post \$10 million monthly as collateral for FHLMC. When ALLEN also indicated that posting the \$10 million monthly would not be a problem for TBW, ROMANO began to have doubts about ALLEN.

ROMANO advised he has never received any cash, gifts, trips, or anything of value from FARKAS or TBW. He recalled going to dinner with FARKAS and other TBW employees, and did not specifically recall who paid, but believes it was FHLMC.

ROMANO advised his date of birth (DOB) was [REDACTED] and his social security number was [REDACTED]

Hake, Katarina

Non Responsive

Hake, Katarina

From: Sharpley, Christopher
Sent: Thursday, March 17, 2011 5:03 PM
To: Emerzian, Peter
Subject: FW: TBW - FHFA Matters

(b)(5)

Laura—ok, you can be the one to give it to her. :)



Christopher R. Sharpley

Deputy Inspector General
Office of Investigations
FHFA Office of Inspector General
1625 Eye Street, NW
Washington, DC 20006
O: 202-408-2555
BB: 202-253-8489

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From: Roberson, Laura
Sent: Thursday, March 17, 2011 1:49 PM
To: Sharpley, Christopher
Subject: RE: TBW - FHFA Matters

Chris –

(b)(5)

Thx!

Laura P. Roberson, CPA

Senior Auditor
Federal Housing Finance Agency
Office of Inspector General – Audit
1625 Eye Street N.W.
Washington, D.C. 20006
Office: (202) 445-2151
BB: (202) 604-1018

Email: Laura.Roberson@fhfa.gov

From: Sharpley, Christopher
Sent: Wednesday, March 16, 2011 10:00 AM
To: Wolfe, William
Cc: Roberson, Laura; Emerzian, Peter
Subject: TBW - FHFA Matters

Heath and Laura,

Please see the attached draft write-up for the SAR. It includes a summary of everything that is public in the case. Also, based on your discussions with Dickerson please include Peter and [REDACTED]

(b)(5)

On an audit related note, were you able to provide Peter [REDACTED]

(b)(5)

Thanks.

Chris



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Sent: Wednesday, March 16, 2011 8:57 AM
To: Sharpley, Christopher
Subject: FW:

From: Lee, Timothy
Sent: Wednesday, March 16, 2011 8:43 AM
To: Emerzian, Peter
Subject: RE:

Hi Peter,

Thanks for the changed language, especially the (b)(5) I did some editing of the changed language for clarity, but the substance should be exactly the same. Unless you object, this goes into the first draft that circulates tomorrow.

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I also attached the Statement of Facts (SOF) for each defendant.

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Tim

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Sent: Tuesday, March 15, 2011 9:55 AM
To: Lee, Timothy
Cc: Sharpley, Christopher
Subject:

As we discussed

Hake, Katarina

From: Roberson, Laura
Sent: Friday, March 18, 2011 4:29 PM
To: Wolfe, William; Sharpley, Christopher; Emerzian, Peter
Cc: Rau, Russell
Subject: Re: Can I report the text below in our audit report? Thanks!

Catching on email thread....I agree w all suggested changes thus far

(b)(5)

(b)(5)

(b)(5)

I may go back and read it again bc I think there was something else...

From: Wolfe, William
Sent: Friday, March 18, 2011 03:49 PM
To: Sharpley, Christopher; Emerzian, Peter
Cc: Roberson, Laura; Rau, Russell
Subject: RE: Can I report the text below in our audit report? Thanks!

Absolutely and thanks!

From: Sharpley, Christopher
Sent: Friday, March 18, 2011 3:48 PM
To: Emerzian, Peter; Wolfe, William
Cc: Roberson, Laura; Rau, Russell
Subject: RE: Can I report the text below in our audit report? Thanks!

(b)(5)



Christopher R. Sharpley

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From: Emerzian, Peter
Sent: Friday, March 18, 2011 3:31 PM
To: Wolfe, William; Sharpley, Christopher
Cc: Roberson, Laura; Rau, Russell
Subject: RE: Can I report the text below in our audit report? Thanks!

Health:

I fine with it

(b)(5)

Thanks

Peter

From: Wolfe, William
Sent: Friday, March 18, 2011 3:28 PM
To: Sharpley, Christopher; Emerzian, Peter
Cc: Roberson, Laura; Rau, Russell
Subject: Can I report the text below in our audit report? Thanks!
Importance: High

(b)(5)

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

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Sent: Friday, March 18, 2011 4:36 PM
To: Wolfe, William; Sharpley, Christopher; Emerzian, Peter
Cc: Rau, Russell
Subject: Re: Can I report the text below in our audit report? Thanks!

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Hake, Katarina

From: Roberson, Laura
Sent: Friday, March 18, 2011 8:49 AM
To: Emerzian, Peter
Subject: Re: TBW - FHFA Matters

Thanks Peter! Until I received info from Saddler yesterday I didn't realize you were directly involved in this case so I apologize for leaving you out of the inquiries...also, as of yesterday evening [REDACTED] (b)(5)

[REDACTED] (b)(5)

[REDACTED] (b)(5) I haven't seen the second (draft) write up but am thinking I will have Heath send it to you since I am out of the office until Tuesday.

Thanks again!

Laurie

From: Emerzian, Peter
Sent: Thursday, March 17, 2011 05:10 PM
To: Roberson, Laura
Subject: FW: TBW - FHFA Matters

Laura,

I have live this for two years, let me know what you want, I be glad to give a full brief

From: Sharpley, Christopher
Sent: Thursday, March 17, 2011 5:03 PM
To: Emerzian, Peter
Subject: FW: TBW - FHFA Matters

FYI



Christopher R. Sharpley

Deputy Inspector General
Office of Investigations
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To: Sharpley, Christopher
Subject: RE: TBW - FHFA Matters

Chris –

(b)(5)

Thx!

Laura P. Roberson, CPA

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Subject: TBW - FHFA Matters

Heath and Laura,

Please see the attached draft write-up for the SAR. It includes a summary of everything that is public in the case. Also, based on your discussions with (b)(7)(C) please include Peter and I on documents/write-ups associated with either Freddie losses from TBW/Colonial or pending investments that did not occur due to TBW closing or as a result of the investigation/search.

On an audit related note, were you able to provide Peter

(b)(5)

Thanks.

Chris



Christopher R. Sharpley

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From: Emerzian, Peter
Sent: Wednesday, March 16, 2011 8:57 AM
To: Sharpley, Christopher
Subject: FW:

From: Lee, Timothy
Sent: Wednesday, March 16, 2011 8:43 AM
To: Emerzian, Peter
Subject: RE:

Hi Peter,

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Tim

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Subject: RE:

Tim,

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I also attached the Statement of Facts (SOF) for each defendant.

(b)(5)

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Hi Peter,

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From: Emerzian, Peter
Sent: Tuesday, March 15, 2011 9:55 AM
To: Lee, Timothy
Cc: Sharpley, Christopher
Subject:

As we discussed

Hake, Katarina

From: Linick, Steve
Sent: Monday, March 14, 2011 6:39 PM
To: Emerzian, Peter; Sharpley, Christopher
Subject: RE: TBW allegation

(b)(5)

From: Emerzian, Peter
Sent: Monday, March 14, 2011 6:37 PM
To: Linick, Steve
Subject: Re: TBW allegation

(b)(5)

From: Linick, Steve
Sent: Monday, March 14, 2011 06:19 PM
To: Sharpley, Christopher; Emerzian, Peter
Cc: Wolfe, William
Subject: FW: TBW allegation

(b)(5)

From: Stapleton, Bill
Sent: Monday, March 14, 2011 8:22 AM
To: Linick, Steve; DiSanto, Emilia; Wolfe, William; Sharpley, Christopher; Emerzian, Peter; Parker, Richard
Subject: TBW allegation

Attached is the email Steve was referring to last night. For those who may only have access to your blackberry I'll summarize it for you.

On 6/23/08, a reporter called OFHEO press contact Stephanie Mullin who then circulated the attached email to Director Lockhart, Ed DeMarco, Peter Brereton, Corinne Russell, Chris Dickerson, Alfred Pollard, Jeffrey Spohn, Patrick Lawler, and Joanne Hanley.

Mullin writes that she has received a call from a blog reporter, Robin Medecke, from the blog (<http://ml-implode.com/>) who had been referred to her by NYT's reporter Ed Andrews. Medecke said that she had received information from a former TBW employee who said that "with or without Freddie Mac's knowledge, the company (TBW) has been for years, selling portfolios of loans at Freddie Mac's cash window that they have not yet purchased and use that to pay back aging warehouse advances that they've already funded." Mullin then asks, "Is this something that we can discuss?"

Less than a hour later Dir. Lockhart replies with cc to all, "No, but we should look into it."

Two minutes later Chris Dickerson replies with cc to all, "we are."

However, today (3/12/2011) I searched through all of former Dir. Lockhart's emails from 6/23/2008, through the end of December 2008 and could find no other references to TBW, or to Robin Medecke's information from the former TBW employee.

Mullin also attached 2 links to stories reporting about Medecke's blog. - Bill

From: Bill Stapleton [mailto:[\(b\)\(7\)\(C\)](#)]
Sent: Sunday, March 13, 2011 10:27 PM
To: Stapleton, Bill

Subject: [Probably SPAM] copies of TIP emails

Hake, Katarina

From: Wolfe, William
Sent: Monday, March 14, 2011 6:43 PM
To: Emerzian, Peter
Subject: RE: Interview of Chris Dickerson re TBW

Not sure. As you can tell, [REDACTED] I should have an answer tomorrow morning.

-----Original Message-----

From: Emerzian, Peter
Sent: Monday, March 14, 2011 6:38 PM
To: Wolfe, William
Subject: Re: Interview of Chris Dickerson re TBW

[REDACTED]

----- Original Message -----

From: Wolfe, William
Sent: Monday, March 14, 2011 05:43 PM
To: Sharpley, Christopher; Emerzian, Peter
Cc: Rau, Russell; Roberson, Laura
Subject: FW: Interview of Chris Dickerson re TBW

Mr. Sharply/Peter:

Please be advised that the subject interview has been scheduled for 3-4 pm tomorrow. I also discussed the

[REDACTED] Mr. Rau.

Heath

-----Original Message-----

From: Wolfe, William
Sent: Monday, March 14, 2011 5:14 AM
To: Sharpley, Christopher; Emerzian, Peter
Cc: Roberson, Laura
Subject: Fw:

FYI. I've requested a meeting with Mr. Dickerson last night for either this afternoon or tomorrow. I'll advise once its confirmed. Thanks!

----- Original Message -----

From: Linick, Steve
Sent: Sunday, March 13, 2011 10:19 PM
To: Wolfe, William
Subject:

Heath

(b)(5)

Hake, Katarina

From: Sharpley, Christopher
Sent: Wednesday, March 16, 2011 10:00 AM
To: Wolfe, William
Cc: Roberson, Laura; Emerzian, Peter
Subject: TBW - FHFA Matters
Attachments: Office of Investigations updated 3-16-11.docx

Heath and Laura,

Please see the attached draft write-up for the SAR. It includes a summary of everything that is public in the case. Also, based on your discussions with Dickerson please include Peter and I

(b)(5)

(b)(5)

On an audit related note, were you able to provide Peter all the FHFA complaints and your analysis of those complaints?

Thanks.

Chris



Christopher R. Sharpley

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As we discussed

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Non Responsive

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Non Responsive

Non Responsive

Non Responsive

WHAT
ABOUT
LEHMAN
&
TBW ?

Non Responsive

1.
2.

Non Responsive

A challenge for the Division was the collapse of Taylor, Bean and Whitaker. Working with the Legal Division and (b)(7)(C) in the Operations Division, you coordinated a successful transition to new counterparties. This was the largest transfer of servicing and related documentation the Company has ever had to undertake.

Non
Respon
si
ve

Non Responsive

Non Responsive

Non Responsive

Non Responsive

6. Worked extensively with TBW and their Senior Management. Was instrumental in finding and promoting to TBW the new Chief Credit Officer. She has been on board less than 3 months and has already made huge improvements. Also was able to communicate and gain acceptance by TBW to limit volume until they get their house in order once again.

(b)(5)

Non Responsive

Non Responsive

Non Responsive

He personally worked diligently to put in place complex arrangements such as a new risk

Non Responsive

collateral agreement (TBW)

Non Responsive

Non Responsive

Ray committed a great deal of time to working on counterparty related issues in 2009 as
management of these accounts. and TBW experienced swift declines in their financial condition.

Non Respo

Non Responsive

TBW was not a good outcome

Non
Respon

for Freddie Mac though Ray did play a major role in posturing our ultimate, collateral demands with them that resulted in an initial pledge of cash collateral.



(b)(5)

News Release

Information by State

Print version

HUD No. 09-145
Brian Sullivan
(202) 708-0685
www.hud.gov/news/

For Release
Tuesday
August 4, 2009

FHA SUSPENDS TAYLOR, BEAN & WHITAKER MORTGAGE CORP. AND PROPOSES TO SANCTION TWO TOP OFFICIALS

Ginnie Mae Issues Default Notice and Transfers Portfolio

WASHINGTON - The Federal Housing Administration (FHA) today suspended Taylor, Bean and Whitaker Mortgage Corporation (TBW) of Ocala, Florida, thereby preventing the Company from originating and underwriting new FHA-insured mortgages. The Government National Mortgage Association (Ginnie Mae) is also defaulting and terminating TBW as an issuer in its Mortgage-Backed Securities (MBS) program and is ending TBW's ability to continue to service Ginnie Mae securities. This means that, effective immediately, TBW will not be able to issue Ginnie Mae securities, and Ginnie Mae will take control of TBW's nearly \$25 billion Ginnie Mae portfolio.

FHA and Ginnie Mae are imposing these actions because TBW failed to submit a required annual financial report and misrepresented that there were no unresolved issues with its independent auditor even though the auditor ceased its financial examination after discovering certain irregular transactions that raised concerns of fraud. FHA's suspension is also based on TBW's failure to disclose, and its false certifications concealing, that it was the subject of two examinations into its business practices in the past year.

"Today, we suspend one company but there is a very clear message that should be heard throughout the FHA lending world - operate within our standards or we won't do business with you," said HUD Secretary Shaun Donovan.

FHA Commissioner David Stevens said, "TBW failed to provide FHA with financial records that help us to protect the integrity of our insurance fund and our ability to continue a 75-year track record of promoting, preserving and protecting the American Dream. We were also troubled that the Company not only failed to disclose it was a target of a multi-state examination and a separate action by the Commonwealth of Kentucky, but then falsely certified that it had not been sanctioned by any state. FHA won't tolerate irresponsible lending practices."

Ginnie Mae President Joseph Murin said, "I would like to reassure TBW's customers whose loans serve as collateral for Ginnie Mae securities that, although this action will result in a new servicer, the transition will be seamless for them."

TBW's immediate suspension is for a temporary period pending the completion of an investigation by HUD's Office of Inspector General, an ongoing review by the Department's Office of Housing, and any legal proceedings that may ensue. TBW is the third largest direct endorsement lender of FHA-insured loans and the eighth largest issuer of Ginnie Mae mortgage-backed securities. FHA decided that TBW's immediate suspension is in the best interest of the public and is necessary to protect the financial interests of the Department.

TBW may appeal its immediate suspension by submitting a written request for a hearing before an Administrative Law Judge within 30 days. Such a request will not delay the action FHA is announcing today.

In conjunction with TBW's suspension, HUD sent notices of proposed debarment to TBW's Chief Executive Officer, Paul R. Allen, and TBW's President, Ray Bowman. Mr. Allen's proposed debarment alleges that he submitted false and/or misleading information to Ginnie Mae regarding TBW's delay in submitting its audited financial reports for fiscal year ending on March 31, 2009. Mr. Bowman's proposed debarment alleges that he submitted two false certifications to HUD on TBW's Yearly Verification Report. Mr. Allen and Mr. Bowman have thirty days to contest the proposed debarments.

###

HUD is the nation's housing agency committed to sustaining homeownership, creating affordable housing opportunities for low-income Americans, and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development and enforces the nation's fair housing laws.

Ginnie Mae is a wholly-owned government corporation within the U.S. Department of Housing and Urban Development. Ginnie Mae pioneered the mortgage-backed security (MBS), guaranteeing the very first security in 1971. An MBS enables a mortgage lender to aggregate and sell mortgage loans as a security to investors. Ginnie Mae securities carry the full faith and credit of the United States Government, which means that, even in difficult times, an investment in Ginnie Mae is one of the safest an investor can make.

More information about HUD and Ginnie Mae is available on the Internet at www.hud.gov, espanol.hud.gov and www.ginniemae.gov

UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF FLORIDA
JACKSONVILLE DIVISION
www.flmb.uscourts.gov

In re:

Chapter 11

TAYLOR, BEAN & WHITAKER MORTGAGE
CORP.,

Case No. 3:09-bk-07047-JAF
Case No. 3:09-bk-10022-JAF
Case No. 3:09-bk-10023-JAF

Debtor.

Jointly Administered Under
Case No. 3:09-bk-07047-JAF

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF TAYLOR, BEAN &
WHITAKER MORTGAGE CORP., on behalf
of TAYLOR, BEAN & WHITAKER MORTGAGE
CORP.,

Adv. Case. No.

Plaintiff,

vs.

LEE B. FARKAS, individually and as a general
partner of 3201 Partnership, CODA ROBERSON
III, individually and as a general partner of 3201
General Partnership, and 3201 PARTNERSHIP, a
Florida general partnership,

Defendants.

**COMPLAINT TO ENFORCE LOAN OBLIGATIONS
AND FOR TURNOVER OF PROPERTY OF THE ESTATE**

The Official Committee of Unsecured Creditors of Taylor, Bean & Whitaker Mortgage Corp. (the "Committee"), on behalf of the bankruptcy estate of Taylor, Bean & Whitaker Mortgage Corp. ("TBW" or the "Debtor"), by and through the Committee's counsel, as and for

BERGER SINGERMAN
attorneys at law

Boca Raton Fort Lauderdale Miami Tallahassee

200 S. Biscayne Boulevard, 10th Floor, Miami, FL 33131-5308 Telephone: (305) 755-9500 Facsimile: (305) 714-4340

its Complaint against Defendants, Lee B. Farkas, individually and as a general partner of 3201 Partnership, Coda Roberson III, individually and as a general partner of 3201 Partnership, and 3201 Partnership, a Florida general partnership, alleges as follows:

PARTIES, JURISDICTION AND VENUE

1. On August 24, 2009, TBW filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Florida, Jacksonville Division, and this is the case to which this adversary proceeding relates.

2. On September 11, 2009, the Office of the United States Trustee appointed the Committee, which is the Plaintiff herein.

3. The Court granted the Committee derivative standing to file this action in the name of the Debtor in its *Order Granting The Official Committee of Unsecured Creditor's Motion to Bring Litigation in the Name of the Debtor*. [D.E. 1108].¹

4. Defendant, Lee B. Farkas ("Farkas"), is *sui juris* and, upon information and belief, is a resident of Marion County, Florida. He is a general partner of 3201 Partnership.

5. Defendant, Coda Roberson III ("Roberson"), is *sui juris* and, upon information and belief, is a resident of Pinellas County, Florida. He is a general partner of 3201 Partnership (together with Farkas, the "General Partners").

6. Defendant, 3201 Partnership ("3201 Partnership"), is a general partnership organized and existing under the laws of the State of Florida. Upon information and belief, 3201 Partnership's principal place of business is Marion County, Florida.

¹ This Order was entered in the main case.

7. The Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §1334 and §157 and venue is proper under 28 U.S.C. §1409.

8. This is a core proceeding. However, as to matters determined to be non-core the Committee consents to the entry of final orders and judgments by the bankruptcy judge.

CONDITIONS PRECEDENT

9. All conditions precedent to bringing this action have been met, performed or excused.

COUNT I

(Action On Demand Line Of Credit Issued To Farkas)

The Committee realleges and incorporates paragraphs 1 – 9 and further states:

10. On October 31, 2008, Farkas executed and delivered a note (“Note A”), a copy being attached as Exhibit A, to TBW in Marion County, Florida.

11. The Bankruptcy Estate of TBW owns and holds Note A. At the time Note A was issued, Farkas was indebted to TBW in the sum of \$9,736,394.70, which included principal and then accrued interest.

12. Farkas has failed to pay Note A according to its terms and is in default.

13. As of the date of the filing of this complaint, Farkas is indebted to TBW under the terms of Note A in the following amounts:

Principal:	\$ 9,736,394.70
Accrued and unpaid interest through 03/17/10:	\$ 218,735.40
Interest continues to accrue at \$1,067.00 per diem:	\$ 1,067.00

14. Note A requires the borrower to pay all the note holder's attorneys' fees and reasonable costs of collection.

15. On September 14, 2009, at a duly convened meeting of the Committee, the Committee voted to retain Paul Steven Singerman, Esq. and Berger Singerman, P.A. to advise and represent the Committee in this bankruptcy action.

16. On September 21, 2009, the Committee filed its *Application for Approval of Employment of Paul Steven Singerman, Esq. and Berger Singerman, P.A. as Counsel for the Official Committee of Unsecured Creditors Nunc Pro Tunc to September 14, 2009*. On October 20, 2009, the Court entered its *Order Granting Application for Approval of Employment of Paul Steven Singerman, Esq. and Berger Singerman, P.A. as Counsel for the Official Committee of Unsecured Creditors Nunc Pro Tunc to September 14, 2009*.

17. The Committee is obligated to pay its attorneys a reasonable fee for services rendered to it in this matter.

WHEREFORE, the Committee demands judgment against Farkas for damages, including accrued interest, post-judgment interest at the Florida statutory rate, attorneys' fees and costs in an amount to be determined at the trial of this cause.

COUNT II

(Action Against Farkas and 3201 Partnership
on Demand Line Of Credit Issued To 3201 Partnership)

The Committee realleges and incorporates paragraphs 1 – 9 and 15 – 17 and further states:

18. On October 31, 2008, 3201 Partnership executed and delivered a note ("Note B"), a copy being attached as Exhibit B, to TBW in Marion County, Florida. As of the date Note B

was issued, 3201 Partnership was indebted to TBW in the sum of \$5,760,507.23 which included principal and then accrued interest.

19. The Bankruptcy Estate of TBW owns and holds Note B.

20. 3201 Partnership has failed to pay Note B according to its terms and is in default.

21. As of the date of the filing of this complaint, Farkas, Roberson and 3201 Partnership are indebted to TBW under the terms of Note B in the amount of \$5,760,507.23.

22. Note B provides that the borrowers shall pay the not holder's reasonable attorneys' fees and costs of enforcement.

WHEREFORE, the Committee demands judgment against 3201 Partnership and its General Partners for damages, including accrued interest, post-judgment interest at the statutory rate, attorneys' fees and costs in an amount to be determined at the trial of this cause as provided for in Note B.

COUNT III

(Action Against Farkas, Roberson and 3201 Partnership
on a Demand Line of Credit)

The Committee realleges and incorporates paragraphs 1- 9 and paragraphs 15 - 17 and further states:

23. On December 15, 2003, Farkas executed and delivered a note to TBW in Marion County, Florida.

24. On April 30, 2004, Farkas renewed the note ("Note C") to TBW, a copy of the renewal being attached as Exhibit C.

25. On April 30, 2004, Farkas and 3201 Partnership entered into an agreement by which, upon information and belief, 3201 Partnership obligated itself to repay Note C. A copy of the agreement is attached as Exhibit C.

26. The Bankruptcy Estate of TBW owns and holds Note C. As of the date of the acceptance by 3201 Partnership of the debt, 3201 Partnership and its General Partners were indebted to TBW in the sum of \$4,429,786.63 which included principal and then accrued interest.

27. Farkas and Roberson are general partners of 3201 Partnership and are liable for its debts.

28. Farkas, Roberson and 3201 Partnership have each and/or together failed to pay Note C according to its terms and are in default.

29. As of the date of the filing of this complaint, Farkas, Roberson and 3201 Partnership owe TBW:

Principal:	\$4,429,786.63
Accrued and unpaid interest through 3/17/10:	\$ 99,518.49
Interest continues to accrue at a rate of \$485.46 per diem:	\$ 485.46

30. Note C, as amended, obligates the borrowers to pay the note holder's reasonable attorneys' fees and costs of enforcement.

WHEREFORE, the Committee demands judgment against Farkas, Roberson and 3201 Partnership for damages, including accrued interest, post judgment interest, attorneys' fees and costs in an amount to be determined at the trial of this cause.

COUNT IV

(Action to Enforce Lost, Destroyed or Stolen Instrument as to Farkas)

The Committee realleges and incorporates paragraphs 1 – 10 and further states:

31. This is an action pursuant to Sec. 673.3091 of the Florida Statutes to enforce a lost, destroyed or stolen original promissory note delivered by Farkas to TBW.

32. The Committee is not presently in possession of the original Note A. However,

- a) TBW was in possession of the original Note A and was entitled to enforce it when the loss of possession occurred;
- b) The loss of possession was not the result of a transfer by TBW or lawful seizure; and
- c) The Committee cannot reasonably obtain possession of the original Note A because its whereabouts cannot be determined.

33. The terms of Note A are shown on Exhibit A attached hereto.

WHEREFORE, the Committee requests entry of judgment confirming the right to enforce the lost, destroyed or stolen original Note A pursuant to Sec. 673.3091 of the Florida Statutes.

COUNT V

(Action to Enforce Lost, Destroyed or Stolen Instrument
as to Farkas, Roberson and 3201 Partnership)

The Committee realleges and incorporates paragraphs 1 – 9 and paragraphs 18 and 23 and further states:

34. This is an action pursuant to Sec. 673.3091 of the Florida Statutes to enforce lost, destroyed or stolen original promissory notes delivered by Farkas and 3201 Partnership to TBW.

35. The Committee is not presently in possession of the original Note B or the original Note C. However,

- a) TBW was in possession of the original Note B and the original Note C and was entitled to enforce them when the loss of possession occurred;
- b) The loss of possession was not the result of a transfer by TBW or lawful seizure; and
- c) The Committee cannot reasonably obtain possession of the original Note B or the original Note C because their whereabouts cannot be determined.

36. The terms of Note B and Note C are shown on Exhibits B and C, respectively, and are attached hereto.

WHEREFORE, the Committee requests entry of judgment confirming the right to enforce lost, destroyed or stolen original Note B and original Note C pursuant to Sec. 673.3091 of the Florida Statutes.

COUNT VI

(Action for Turnover of Property of The Estate)

The Committee realleges and incorporates paragraphs 1 –36 and further states:

37. This is an action pursuant to 11 U.S.C. § 542(b) for Turnover of property of the Debtor's Estate.

38. Farkas is obligated to the Debtor under Note A and Farkas, Roberson and 3201 Partnership are obligated to the Debtor under Notes B and C for debts that are property of the Debtor's Estate, that are mature, payable on demand and/or payable on order.

39. Defendants' failure to pay the obligations evidenced by Notes A, B and C violate 11 USC § 542(b).

40. Demand has been made to the Defendants for Turnover of the property of the Debtor's Estate but they have individually and/or collectively refused to do so.

WHEREFORE, the Committee demands judgment under 11 U.S.C. § 542(b) against Farkas on Note A and against Farkas, Roberson and 3201 Partnership on Notes B and C for damages, including accrued interest, post judgment interest at the Florida statutory rate, attorneys' fees and costs in an amount to be determined at the trial of this cause.

Dated: March 17, 2010

Respectfully submitted,

BERGER SINGERMAN
*Attorneys for Official Committee of Unsecured
Creditors Committee*
200 S. Biscayne Blvd., Suite 1000
Miami, FL 33131
Telephone: (305) 755-9500
Facsimile: (305) 714-4379

By: /s/ James D. Gassenheimer
James D. Gassenheimer
Fla. Bar No. 959987
jgassenheimer@bergersingerman.com

EXHIBIT A

In re: Taylor, Bean & Whitaker Mortgage Corp.;
Case No. 3:09-BK-07047-JAF Chapter 11
Official Committee of Unsecured Creditors, etc. v. Farkas, Roberson and 3201
Partnership

Adv. Pro. No. _____

Demand Line of Credit
Between Lee B. Farkas and Taylor, Bean & Whitaker Mtg Corp.

\$10,500,000.00

Date: October 31, 2008

For value received, the undersigned, Lee B. Farkas (the "borrower"), promises to pay on demand to the order of Taylor, Bean & Whitaker Mtg Corp. (the "lender") the outstanding balance of this demand line of credit up to the sum of ten million five hundred thousand dollars (\$10,500,000.00) together with interest thereon from the date hereof until paid at the rate of four (4%) percent annum. At the date of this note, the balance is \$9,736,394.70 which includes principal and accrued interest.

This demand line of credit is secured by all personal assets of Lee B. Farkas.

In the event that this demand line of credit is not paid when due, the undersigned shall pay all attorneys' fees and reasonable costs of collection.

Notice to borrower: This is a demand line of credit and so may be collected by the lender at any time. A new note mutually agreed upon and subsequently issued may carry a higher or lower rate of interest.

As of October 31, 2008 and forward, until this agreement is revoked, if agreed by both Lee B. Farkas and Taylor, Bean & Whitaker Mtg Corp., Lee B. Farkas will accept full responsibility of the balance on this note.

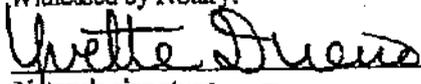


Lee B. Farkas

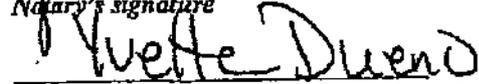


Raymond Bowman
Taylor, Bean & Whitaker Mtg Corp.

Witnessed by Notary:



Notary's signature



Notary's printed name and expiration of term

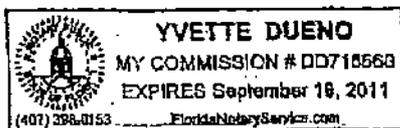


EXHIBIT B

In re: Taylor, Bean & Whitaker Mortgage Corp.;

Case No. 3:09-BK-07047-JAF Chapter 11

Official Committee of Unsecured Creditors, etc. v. Farkas, Roberson and 3201

Partnership

Adv. Pro. No. _____

Demand Line of Credit
Between 3201 Partnership and Taylor, Bean & Whitaker Mtg Corp.

\$6,500,000.00

Date: October 31, 2008

For value received, the undersigned, 3201 Partnership (the "borrower"), promises to pay on demand to the order of Taylor, Bean & Whitaker Mtg Corp. (the "lender") the outstanding balance of this demand line of credit up to the sum of six million five hundred thousand dollars (\$6,500,000.00). At the date of this note, the balance is \$5,760,507.23.

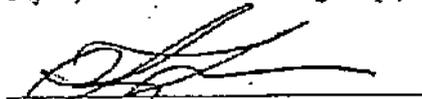
This demand line of credit agreement supercedes and effectively cancels the \$5,115,840.00 revolving note agreement, dated March 31, 2005, between 3201 Partnership and Taylor, Bean & Whitaker Mortgage Corp.

This demand line of credit is secured by property located at Fire Road 3, Surry, ME.

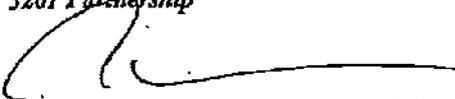
In the event that this demand line of credit is not paid when due, the undersigned shall pay all attorneys' fees and reasonable costs of collection.

Notice to borrower: This is a demand line of credit and so may be collected by the lender at any time. A new note mutually agreed upon and subsequently issued may carry a higher or lower rate of interest.

As of October 31, 2008 and forward, until this agreement is revoked, if agreed by both 3201 Partnership and Taylor, Bean & Whitaker Mtg Corp., 3201 Partnership will accept full responsibility of the balance on this note.

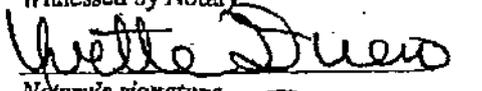


Lee B. Farkas, Partner
3201 Partnership



Raymond Bowman
Taylor, Bean & Whitaker Mtg Corp.

Witnessed by Notary:



Notary's signature


Notary's printed name and expiration of term



EXHIBIT C

In re: Taylor, Bean & Whitaker Mortgage Corp.;

Case No. 3:09-BK-07047-JAF Chapter 11

Official Committee of Unsecured Creditors, etc. v. Farkas, Roberson and 3201

Partnership

Adv. Pro. No. _____

3201 Partnership
101 N.E. 2nd Street
Ocala, Florida 34470-6640

Assignment of Demand Line of Credit

Date: April 30, 2004

3201 Partnership accepts the assignment of the following demand line of credit between Taylor, Bean & Whitaker & Lee B. Farkas:

\$10,000,000.00

Date: December 15, 2003

For value received, the undersigned, Lee B. Farkas (the "borrower"), promises to pay on demand to the order of Taylor, Bean & Whitaker (the "lender") the outstanding balance of this demand line of credit up to the sum of ten million dollars (\$10,000,000.00) together with interest thereon from the date hereof until paid at the rate of four (4%) percent annum. At the date of this note, the balance is \$4,429,786.63, which includes principal and accrued interest.

This demand line of credit agreement supercedes and effectively cancels the \$4 million revolving note agreement, dated April 30, 2003, between Compass Health & Fitness and Taylor, Bean & Whitaker.

This demand line of credit is secured by all personal assets of Lee B. Farkas, including (but not limited to) his stock in Taylor, Bean & Whitaker and all interest in assets of Compass Health & Fitness, including but not limited to, Compass' cash, receivables, inventory, and property and equipment.

In the event that this demand line of credit is not paid when due, the undersigned shall pay all attorneys' fees and reasonable costs of collection.

Notice to borrower: This is a demand line of credit and so may be collected by the lender at any time. A new note mutually agreed upon and subsequently issued may carry a higher or lower rate of interest.

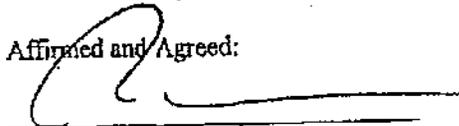
As of April 30, 2004 and forward, until this agreement is revoked, if agreed by both Coda Roberson III and Lee B. Farkas, 3201 Partnership will accept full responsibility of the balance on this note. At April 30, 2004 the balance of this note is \$4,588,017.13 (which includes principal and accrued interest) at April 30, 2004.



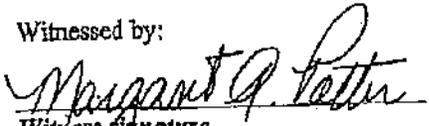
Coda Roberson III, Partner
3201 Partnership


Lee B. Farkas, Partner
3201 Partnership

Affirmed and Agreed:


Raymond Bowman
Taylor, Bean & Whitaker Mortgage Corp.

Witnessed by:


Witness signature

MARGARET A. POTTER
Witness printed name

(b)(5)

(b)(5)

(b)(5)



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

1625 Eye Street, N.W., Washington DC 20006

August 23, 2011

Ms. Robin J. Medecke

(b)(6)

By Electronic Mail

Re: Freedom of Information Act Request

Dear Ms. Medecke:

This responds to your July 1, 2011 Freedom of Information Act Request (“FOIA”), 5 U.S.C. § 552, which the Federal Housing Finance Agency’s Office of the Inspector General (“FHFA-OIG”) received on or about July 21, 2011,¹ and has assigned it tracking number **OIG FOIA #2011-11**. You requested the following:

Sometime shortly after the 11th of June, 2008 I submitted an email to what was then still OFHEO’s consumer hotline, relaying reports of fraud at Taylor, Bean & Whitaker that I received in the course of my work. This is the same email being referenced on page 11 of the FHFA/OIG “Audit of the Federal Housing Finance Agency’s Consumer Complaint Process” report dated 6/21/11 and posted in FHFA’s website at <http://www.fhfaoig.gov/Content/Files/AUD-2011-001.pdf>.

I would like to request a copy of that email be sent back to me since I failed to retain a printed copy and have no way of retrieving it via other [electronic] means.

After reviewing your request at length, FHFA-OIG reads the relevant section of the audit report differently. The report says that OFHEO received and discussed a particular email by an investigative reporter claiming to be in contact with a former Taylor, Bean & Whitaker (“TBW”) employee who was alleging that TBW was fraudulently selling loans to Freddie Mac that TBW had not yet purchased, and that TBW was using the proceeds paid by Freddie Mac to re-pay advances it received. The report does not say that FHFA-OIG possesses that email, but focuses primarily on OFHEO’s handling of that email. This focus reflects the nature of the documents FHFA-OIG received during the audit, because FHFA-OIG only received OFHEO’s email discussion. FHFA never provided the underlying email which gave rise to that discussion. Therefore, the record that you seek is maintained by FHFA and FHFA-OIG was never in possession of the record.

¹ FHFA forwarded your request to FHFA-OIG on or about July 21st for separate processing and response in accordance with FHFA’s FOIA regulations at 12 C.F.R. Part 1202.

This is the final decision on your July 21st request. If you believe this decision denies your request in whole or in part, you may appeal it in writing within 30 days, per 12 C.F.R. § 1202.9, by writing directly to the FOIA Appeals Officer via electronic mail, mail, delivery service, or facsimile. Your appeal must cite the applicable tracking number(s) for the request(s) you contend to have been denied. Your appeal must include a copy of the request(s) you contend to have been denied, a copy of your decision letter, and a statement of circumstances, reasons, or arguments you believe support disclosure of the requested record(s). Your appeal must also be clearly marked "FOIA Appeal: FHFA-OIG." The electronic mail address is: foia@fhfa.gov. For mail or delivery service, the mailing address is: FOIA Appeals Officer, Federal Housing Finance Agency, 1700 G Street, NW, Washington, DC 20552. The facsimile number is: (202) 414-8917.

If you have any questions concerning your request, you may contact me at (202) 445-2195.

Sincerely,

A handwritten signature in black ink, appearing to read "Katarina Balmaseda", with a long horizontal flourish extending to the right.

Katarina Balmaseda
FOIA Officer

**FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL**

**Audit of the Federal Housing Finance Agency's
Consumer Complaints Process**



AUDIT REPORT: AUD-2011-001

DATED: JUNE 21, 2011



Audit of the Federal Housing Finance Agency's Consumer Complaints Process

At a Glance

Why FHFA-OIG Did This Audit

In September 2008, the Federal Housing Finance Agency (FHFA or Agency) placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises) into conservatorships in an effort to restore their financial health. As of March 31, 2011, the U.S. Department of the Treasury had invested nearly \$154 billion in the Enterprises, and the Federal Reserve has taken major steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. At the same time, consumers suffering from the effects of the crisis increasingly filed complaints with the Enterprises and FHFA, the conservator and regulator of the Enterprises. FHFA staff estimated that 70% - 75% of all complaints to the Agency pertained to the Enterprises.

In light of these events, Congress and others expressed interest in whether FHFA adequately responded to consumer complaints including, but not limited to, complaints of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The FHFA Office of Inspector General (FHFA-OIG) initiated this audit to assess how FHFA processed consumer complaints.

What FHFA-OIG Recommends

FHFA-OIG recommends that the Agency: (1) design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints and allegations of fraud, that, among other things, define the related roles and responsibilities for FHFA and the Enterprises and provide for consultation with FHFA-OIG to process allegations of fraud; (2) assess the sufficiency of resources allocated to the complaints process; and (3) determine whether there are unresolved complaints alleging fraud or other potential criminal activity.

In response to FHFA-OIG's findings and recommendations, FHFA provided written comments, dated June 6, 2011. The Agency agreed with the recommendations. The complete text of the written comments can be found in Appendix A of this report.

What FHFA-OIG Found

FHFA did not adequately process consumer complaints. Specifically, FHFA did not: (1) sufficiently define its role in processing complaints received by the Agency or the Enterprises; (2) develop and maintain a consolidated system for receiving and processing complaints; (3) establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities; (4) consistently follow-up on consumer complaints referred to the Enterprises; (5) comply with its records management policy; (6) perform routine substantive analyses to identify overall trends in complaints; (7) comply with safeguards for personally identifiable information received from complainants; and (8) prioritize complaints or assess the timeliness of responses to complainants.

These deficiencies occurred because FHFA did not establish a sound internal control environment governing consumer complaints, including formal policies and procedures for complaints received by FHFA and the Enterprises. Additionally, FHFA did not assign the complaint processing function sufficient priority, did not allocate adequate resources to the function (it assigned two individuals from its public relations staff to carry out the function), and did not provide effective oversight including performance reporting on the resolution of complaints (it was unable to identify the total number of complaints received during the audit period and report the disposition of each complaint). As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, such as improper foreclosures, were appropriately addressed in an efficient and effective manner in order to minimize risks. This is particularly important given FHFA's responsibilities as conservator for the Enterprises.



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ABBREVIATIONS/ACRONYMS

Fannie Mae.....	Federal National Mortgage Association
FBI.....	Federal Bureau of Investigation
FHFA or Agency.....	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
FHLBanks.....	Federal Home Loan Banks
Freddie Mac.....	Federal Home Loan Mortgage Corporation
HERA.....	Housing and Economic Recovery Act of 2008
MS.....	Microsoft®
OCAC	Office of Congressional Affairs and Communications
OCO.....	Office of Conservatorship Operations
OFHEO.....	Office of Federal Housing Enterprise Oversight
OGC.....	Office of General Counsel
TBW	Taylor, Bean &Whitaker Mortgage Corp.

Federal Housing Finance Agency

Office of Inspector General

Washington, D.C.

PREFACE

FHFA-OIG was established by the Housing and Economic Recovery Act of 2008 (Public Law No. 110-289), which amended the Inspector General Act of 1978 (Public Law No. 95-452), to conduct audits, investigations, and other activities of the programs and operations of FHFA; to recommend policies that promote economy and efficiency in the administration of such programs and operations; and to prevent and detect fraud and abuse in them. This is one of a series of audits, evaluations, and special reports published as part of FHFA-OIG's oversight responsibilities to promote economy, effectiveness, and efficiency in the administration of FHFA's programs.

The objective of this performance audit was to assess how FHFA processed consumer complaints. The audit found that FHFA did not have an adequate complaints process. For example, FHFA assigned only two individuals to process complaints; did not segregate complaints from other correspondence within its systems; did not refer potentially criminal allegations to law enforcement authorities; and did not consistently log telephone complaints. FHFA-OIG believes that the recommendations contained in this report will help the Agency develop and adopt more economical, effective, and efficient operations. FHFA-OIG appreciates the assistance of all those who contributed to the audit.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on FHFA-OIG's website: <http://www.fhfaog.gov/>.

Russell A. Rau
Deputy Inspector General for Audits

BACKGROUND

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (HERA) established FHFA as regulator of the three housing-related government-sponsored enterprises: Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). FHFA's mission is to promote their safety and soundness, support housing finance and affordable housing goals, and facilitate a stable and liquid mortgage market.

On September 6, 2008, just five weeks after its creation, FHFA became conservator of Fannie Mae and Freddie Mac, and the U.S. Department of the Treasury (Treasury) began providing the Enterprises substantial financial support. As conservator, FHFA preserves and conserves the assets and property of the Enterprises, ensures they focus on their housing mission, and facilitates their financial stability and emergence from conservatorship. As of March 31, 2011, Treasury had invested almost \$154 billion in the Enterprises in an effort to stabilize their operations and the mortgage market generally. The Federal Reserve also took steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

On October 12, 2010, FHFA's first Inspector General was sworn in, and FHFA-OIG commenced operations. In November 2010, FHFA-OIG initiated this audit to assess how FHFA processed consumer complaints. For purposes of this report, consumer complaints include, but are not limited to, those involving allegations of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The time period covered by this audit begins with the creation of the Agency on July 30, 2008, and continues for two years and three months, through October 31, 2010, when FHFA-OIG's operations began.

Overview of Consumer Complaints

Consumer Complaints Pertaining to FHFA and the Enterprises

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. FHFA reported in its Fiscal Year 2010 Performance and Accountability Report that continued uncertainty about economic conditions, employment, housing prices, and mortgage delinquency rates were likely to result in additional losses and Treasury investments in the Enterprises.

The deteriorating financial conditions in the housing market have been accompanied by a substantial increase in consumer complaints, including those about the Enterprises. While both Enterprises developed internal controls to manage these complaints, a December 2, 2010, FHFA review of the Enterprises' consumer complaints procedures – when describing the rationale for conducting the review – reported an “increased number of repeat complaints and increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive.” Consumers file complaints with FHFA, the Enterprises, or both. In some instances, consumers elevated to FHFA their complaints that were initially filed with the Enterprises. Although FHFA personnel

were unable to identify the total number of complaints received during the audit period, they stated that the number of individuals who contacted the Agency with complaints increased dramatically. Further, more than 70% of all consumer complaints received by FHFA during the audit period were submitted by individuals who claimed they were experiencing problems with the Enterprises.¹

Complaints of Fraud, Waste, or Abuse

During the audit period, the nation also witnessed a dramatic surge in mortgage fraud cases. According to statistics released by the Federal Bureau of Investigation (FBI) in July 2009, there was a 36% increase in reports of mortgage fraud in fiscal year 2008 compared to fiscal year 2007.² Further, financial institutions estimated that they lost at least \$1.4 billion to mortgage fraud in fiscal year 2008, an increase of 83% in estimated losses over fiscal year 2007.

FHFA received complaints alleging fraud, waste, or abuse through the same processes as consumer complaints. Many of these allegations involved possible improper foreclosure actions on single family residential mortgages, which is an area of considerable risk because of the potential adverse impact on the consumer.

FHFA's Consumer Complaints Process

Beginning in late 2008, FHFA assigned the task of handling consumer complaints to two individuals who worked in the Office of Congressional Affairs and Communications (OCAC), the unit responsible for handling most of the Agency's external correspondence. The two employees were given consumer complaint processing duties in addition to their existing significant responsibilities.

FHFA's practices for processing consumer complaints varied according to the means of their communication and their subject matter. Written, email, and telephone complaints were processed separately and differently. Additionally, depending upon the subject matter, OCAC forwarded complaints to the Enterprises or processed them internally.

Written Complaints

During the audit period, FHFA received written correspondence by U.S. mail, private express mail carrier, and telefax. All such correspondence, including written complaints, was delivered to the Office of the Director and entered into FHFA's internal electronic information system, known as TRAKKER.³

¹ Sometimes the Agency received complaints from current and former employees of the Enterprises. This audit did not extend to complaints from employees related to personnel issues.

² See, 2009 Mortgage Fraud Report "Year in Review," FBI National Press Release, dated July 7, 2009, available at <http://www.fbi.gov/stats-services/publications/mortgage-fraud-2009>.

³ FHFA developed this electronic system in 2008 to serve as a document storage system for hard copy, written correspondence received by the Agency.

Within TRAKKER, FHFA did not prioritize consumer complaints. FHFA's external correspondence was subdivided into categories or classifications. One such category was "public inquiries," which included consumer complaints. Other categories included Congressional correspondence and stakeholder inquiries. FHFA did not assign any priority to the public inquiries category. Further, although FHFA advised that all written complaints were filed within the public inquiries category, FHFA-OIG's random review of correspondence retained throughout the TRAKKER system revealed that complaints were also filed among other categories in the system, including the "Presidential" communications category. Thus, even if the Agency had manually culled complaints from the public inquiries category, it still would not have identified all written complaints for this audit.

Complaints logged into the public inquiries category of the TRAKKER system were commingled with other general correspondence. TRAKKER did not provide FHFA with the capability to separate complaint correspondence from all other correspondence. No sub-classifications, codes, or categories were entered at the time of logging that would allow FHFA later to identify correspondence containing complaints. As a result, FHFA cannot efficiently and accurately report – or even provide summary information – concerning the volume or type of written complaints received by the Agency, the number of unresolved complaints, the average amount of time to resolve a complaint, or how complaints were resolved. Because complaints were commingled with multiple types of general correspondence, the Agency was also unable to analyze trend data and identify risk areas. Accordingly, the Agency was unable to efficiently fulfill FHFA-OIG's request for complaints received during the audit period. FHFA had no capability – short of a manual inspection – to access the written complaints it had received over the course of the 27 month audit period. This inability was a limitation in the scope of the audit.

Electronic Mail Complaints

FHFA also commingled email complaints with other external email communications, which again, inhibited its ability to report efficiently and accurately on the volume, types, timing, and resolution of complaints. In late 2008, FHFA established a public email account (FHFAInfo@fhfa.gov) and posted the address on the Agency's website. The subject matter of the emails received from the public varied and included, among other things, comments, questions, and complaints. Emails received from the public were retained in the Agency's email system. However, similar to the Agency's practice with respect to written correspondence, FHFA did not adopt a system or procedures to preserve and retain separately emails containing complaints from the entire universe of external emails that it received. Accordingly, FHFA's email complaints suffer from some of the same deficiencies noted with respect to written complaints retained in the TRAKKER system.

FHFA-OIG manually reviewed all emails that were received and designated as a complaint by the Agency for the specified audit period. The Agency formulated the emails into a database that FHFA-OIG used for the audit. FHFA-OIG determined that 585 consumer email complaints were received during the audit period. Of these complaints, 115 were retained by the Agency for internal processing⁴ and the remaining 470 complaints were referred to the Enterprises.

⁴ In some cases, internal processing constituted a summary determination that no action was required.

FHFA-OIG also determined that 27 complaints included allegations of fraud,⁵ and 68 contained allegations of improper foreclosures.

According to the Office of General Counsel (OGC) staff, it was FHFA's practice to refer email complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. But, according to OGC, no records exist showing how many such complaints were referred for review to OGC, the nature of the complaints reviewed, or their disposition. Further, OGC confirmed that no complaints were referred to law enforcement authorities during the audit period.

Telephone Complaints

Telephone complaints that came into the Agency were transferred to OCAC staff. However, prior to June 2010, incoming telephone calls from individuals who registered complaints about the Agency or the Enterprises were not recorded. As a result, the nature of each complaint was not described, and the complainant's information was not retained. Further, a description of the disposition of each complaint was not preserved. In June 2010, however, one OCAC employee began logging telephone complaints by entering and saving complainant contact information on a spreadsheet. This practice was not uniformly followed. Specifically, no other OCAC or FHFA staff member logged telephone complaint information. Therefore, overall information on the number of these complaints was not available, which, similar to the situation with written complaints, posed a scope limitation for the audit. Moreover, the inadequate recordkeeping represents a significant shortcoming in the complaint resolution process.

FHFA Debated Its Role in the Complaints Process for Two Years

Although FHFA recognized the importance of properly handling complaints in its Fiscal Year 2010 Performance and Accountability Report – stating that it was committed to providing accurate information to industry stakeholders and the public in a timely way – it debated the nature and scope of its role for two years and did not implement needed improvements.

In March and April 2009, FHFA senior managers engaged in a debate recorded in emails concerning FHFA's role in the complaints process. An individual complained to FHFA about having difficulties obtaining information related to a home sale under Freddie Mac's "Home Steps" program. The series of internal FHFA emails concluded with the following reply email, dated April 1, 2009, from an FHFA senior manager to seven other FHFA officials and staff:

My own view – we are the regulator and conservator. It is a slippery slope for us to be responding to complaints about individual transactions like this. If we think this is evidence of a more general problem or concern we have, we should use it to communicate with the appropriate regulated entity about the problem. Otherwise, I see no merit to responding to (Mr. X) beyond perhaps a stiffly worded "we received your

⁵ The scope of this audit did not include assessing the validity of the allegations received by FHFA. Additionally, although FHFA-OIG was able to track and analyze the disposition of email complaints, it was unable to perform similar analyses on telephone and written complaints due to the lack of documentation.

communication and have forwarded your concern to an appropriate party. As a general matter we do not intervene in individual transactions” or something like that ... The response should come from OER.⁶ OCO⁷ can then send the email trail to Fannie ... and simply say we are passing along this communication for your information. You may take whatever action you deem appropriate. We plan no follow-up.

Debate within the Agency continued through 2009 and into 2010. In September 2010, consistent with the FHFA senior manager’s conclusion quoted above, the Agency posted on its website an item entitled, “FHFA: Frequently Asked Questions,” which included two sample questions concerning complaints.⁸ After describing the facts of the underlying complaint, the first inquiry concluded, “Can FHFA resolve this situation for me?” FHFA replied that:

Under conservatorship, FHFA has delegated certain authorities to Fannie Mae and Freddie Mac, including responsibility for day to day business operations. FHFA generally does not intervene in matters involving individual mortgages, property sales or transfers, foreclosures, or other actions.

The second inquiry asked:

I have spent long periods of time trying to reach a representative at Fannie Mae or Freddie Mac by phone, or I have had unsatisfactory interactions with representatives once I have gotten through to one of the companies. As regulator and conservator of the Enterprises, will FHFA resolve the issue or help me reach a person who will help solve my problem?

FHFA responded with the same explanation about FHFA’s delegation to the Enterprises, but elaborated as follows:

Both Enterprises have experienced unprecedented levels of calls, emails, and letters in the past two years since the housing crisis began and phone call centers are sometimes overwhelmed. We urge borrowers to be patient as they attempt to contact the Enterprises directly to resolve mortgage-related issues.

Throughout this period, the Agency’s posture was that the Enterprises, not FHFA, should handle complaints, and that FHFA’s handling of complaints was simply a “courtesy” provided to consumers. Further, FHFA did not clarify what role it should play in overseeing the Enterprises’ resolution of complaints. For example, FHFA issued no guidance concerning the content and format of resolution reports, did not routinely reconcile reports, and obtained and reviewed disposition documentation in only two cases (even though such documentation was requested for complaints forwarded to the Enterprises for a response).⁹

⁶ “OER” was the acronym that FHFA used to refer to its Office of External Relations, which was the predecessor to OCAC.

⁷ “OCO” is an acronym used to describe the Office of Conservatorship Operations.

⁸ See <http://www.fhfa.gov/Default.aspx?Page=316>.

⁹ FHFA-OIG did not assess the processes used by the Enterprises to handle complaints received either directly or from FHFA.

In October 2010, OCO began a review of the consumer complaints process at Fannie Mae and Freddie Mac. OCO's decision to conduct the review purportedly was "based on the increased number of repeat complaints and the increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive."¹⁰ Based on its review, OCO recommended that FHFA address long-standing questions concerning its role in resolving consumer complaints. OCO rhetorically asked, "What role does FHFA want or need to play in the consumer complaint arena?" Should FHFA play an active role in complaint resolution, "or determine that they are an intermediary" and simply refer complaints to the Enterprises? Responding to its questions, OCO observed that FHFA must determine whether to involve itself only with complaints sent to FHFA or to play some role in reviewing the resolution of all complaints sent to the Enterprises. The OCO report's final section, entitled "OCO Minimum Suggestions," urged FHFA to "take a more active monitoring position in the complaint process." Specifically, the report concluded that FHFA should better manage its consumer complaint referral process, including doing the following: (1) actively monitoring the weekly reports¹¹ to ensure that sufficient information is obtained; and (2) obtaining and reviewing at least a sample of the actual documentation for sufficiency in addressing the complaints.

Additionally, in response to recommendations by FHFA's former Office of Internal Audit, the Agency engaged a contractor to assess its internal controls over the handling of external stakeholder correspondence, including consumer complaints. As of the Agency's June 6, 2011, comments to a draft of this report, the Agency had neither fully resolved the internal debate concerning its role in the consumer complaint process nor implemented any of the recommendations included in its contractor's final report received on May 5, 2011.¹²

¹⁰ The reasons for the review are unclear, but there is evidence that it may have been prompted by FHFA-OIG's inquiries on the subject. Although FHFA claims that its decision was prompted by the volume of complaints and concerns about the Enterprises' responsiveness, the Agency's meeting minutes indicate that an OCO staff member explained to one of the Enterprises that "FHFA is trying to gain a better understanding of the consumer complaints process at both Enterprises, especially in light of a recent IG request."

¹¹ In late 2009, FHFA began receiving weekly reports from the Enterprises that outlined the status of the referred complaints. However, the weekly reports were strictly narrative and were not supplemented by supporting documentation. Also, FHFA did not conduct adequate and/or timely reconciliations of the weekly reports to ensure that proper action was taken to address the complaints. FHFA officials stated that informal reconciliations of the complaints were performed; however, this process was not documented. Furthermore, OCAC staff explained that they were at one point up to five weeks behind in conducting the reconciliations.

¹² We did not assess the status of FHFA's implementation of the recommendations in the contractor's report, but instead relied on statements included in FHFA's June 6th comments.

RESULTS OF THE AUDIT

Finding: FHFA's Oversight of the Receipt, Processing, and Disposition of Consumer Complaints Was Inadequate

For the period of July 30, 2008, through October 31, 2010, FHFA did not adequately process consumer complaints, including those alleging fraud, waste, or abuse. Specifically, FHFA did not:

- (1) Sufficiently define its role in processing complaints received by the Agency or by the Enterprises;
- (2) Develop and maintain a consolidated system for receiving and processing complaints;
- (3) Establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities;
- (4) Consistently follow-up on consumer complaints referred to the Enterprises;
- (5) Comply with its records management policy;¹³
- (6) Perform routine substantive analyses to identify overall trends in complaints;
- (7) Comply with safeguards for personally identifiable information received from complainants; or
- (8) Prioritize complaints or assess the timeliness of responses to complainants.

This occurred because the Agency did not establish a sound internal control environment¹⁴ that included formal policies and procedures regarding complaints processing. Further, FHFA did not assign the complaint processing function sufficient priority, allocate adequate resources, or perform effective oversight, including performance reporting on the resolution of complaints. As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, were appropriately addressed in an efficient and effective manner.

1. FHFA Did Not Sufficiently Define Its Role in the Consumer Complaints Process

As the regulator and conservator of the Enterprises, FHFA did not sufficiently define its role and responsibilities for the receipt, processing, and disposition of consumer complaints. For example, FHFA has not:

- Clearly defined its role in resolving consumer complaints;
- Developed and adopted a formal policy establishing organizational responsibilities for receiving, processing, and resolving complaints. FHFA-OIG found no written policies or procedures governing the complaints process;
- Provided the necessary resources to address complaints and instead – without providing additional needed training – assigned the task of processing all complaints to two employees who already had significant responsibilities within OCAC;

¹³ FHFA Policy No. 207: *Records Management Policy*, dated January 9, 2009.

¹⁴ The Government Accountability Office published *Standards for Internal Control in the Federal Government*, dated November 1, 1999, which discusses the control environment in terms of management's framework for planning, directing, and controlling operations to achieve objectives.

- Conducted appropriate follow-up on the disposition of complaints referred to the Enterprises, nor has it obtained and reviewed the supporting documentation reflecting such disposition; or
- Actively monitored all pending complaints or developed the capacity to do so.

FHFA-OIG concluded that FHFA's failure was largely the result of its inability to decide whether to handle consumer complaints, and how to address those complaints it decided to handle. From the onset, FHFA treated its complaints processing function more as a public or external relations task, as opposed to a core regulatory or conservator function.

To date, FHFA has not published formal policies and procedures that could serve as a guide to its employees and could inform the public regarding whether FHFA is prepared to intervene on behalf of citizens who experience difficulties in matters involving the Enterprises. FHFA has been aware of the problem; indeed, it has debated the issue for two years.

FHFA assigned the responsibility for the receipt, processing, and disposition of complaints to two OCAC employees. Both individuals had significant responsibilities in addition to processing the complaints coming into the Agency. As a result, the OCAC employees were limited in their ability to focus attention on complaint processing even though the Agency reported that complaint activity was increasing. Moreover, the OCAC staff members did not have a clear statement of FHFA's intent to address complaints, as would be the case if the Agency had written policies and procedures for processing complaints. Indeed, one of the two OCAC employees who handled complaints advised an OCAC senior manager that she was concerned that FHFA's procedures for handling complaints could become "an emergency situation or embarrassing PR nightmare."

Additionally, the two OCAC staffers who managed FHFA's complaints process routinely made *ad hoc*, important decisions regarding complaint referrals from FHFA to other government agencies, external organizations, and the Enterprises. These decisions were not governed by an Agency-wide policy, there were no required approvals or management oversight of such actions, and there were no procedures to provide supervisors with evidentiary support for their decisions or to perform follow-up. The OCAC staffers received no specific training regarding how to evaluate complaints or how to identify allegations requiring further action by the Agency or referral to law enforcement authorities, such as the Department of Justice or the FBI.

2. FHFA Did Not Develop and Maintain a Consolidated System for Receiving and Processing Consumer Complaints

FHFA used three separate systems to log complaints: (1) a Microsoft® (MS) Excel spreadsheet to log telephonic complaints;¹⁵ (2) an MS Outlook email account to log email complaints; and (3) the TRAKKER system to log hard copy complaints, including letters and faxes. Further, FHFA did not monitor complaints sent directly to the Enterprises. This decentralized methodology limited oversight of the total population of complaints because there was no consolidated management reporting system.¹⁶ In fact, FHFA was unable to identify the total number of complaints the Agency and Enterprises received during the audit period. Without such a consolidated system, the Agency was unable to provide transparency of the complaints environment, including management reporting and appropriate access to Agency staff to facilitate effective oversight of the complaints process.

Additionally, FHFA lacked formal procedures governing its process for tracking and reconciling complaints using the three systems identified above, as well as the Enterprises' reports. This lack of procedures impaired the consistency and usefulness of the information maintained and oversight of the complaints process.

FHFA also did not establish minimum information requirements necessary to make well-supported and documented decisions regarding the processing of complaints. Consumer complaints received by the Agency covered a variety of topics and contained a wide range of information – from as little as the complainant's first name to more than a year's worth of written correspondence and documentation, sometimes including complete loan packages. FHFA, however, took no action to establish a consolidated management reporting system for complaints, standard complaint documentation, data elements for required information, or consistent categories and classifications of complaints that would be useful in controlling the complaints process and ensuring Agency and Enterprise responsiveness to complainants.

Rather than develop a consolidated management reporting system for complaints, FHFA tolerated an inefficient, decentralized complaints process. As a result, it lost track of more than two years of written, telephone, and email complaints and lacks assurance regarding the adequacy of responses.

3. FHFA Did Not Establish Effective Procedures for the Evaluation and Referral of Consumer Complaints Alleging Fraud, Waste, or Abuse

FHFA-OIG determined that there were 585 email complaints submitted during or in close proximity to the audit period. These complaints were received by FHFA and, in some cases, one of its predecessor agencies (the Office of Federal Housing Enterprise Oversight (OFHEO)). Among the complaints reviewed by FHFA-OIG, there were 95 complaints containing allegations of fraud and/or improper mortgage foreclosure. Of these 95 complaints, 27 involved allegations

¹⁵ As previously discussed, the spreadsheet was used by only one employee, and its use began in June 2010.

¹⁶ A reporting system must meet the requirements in FHFA Policy No: 207: *Records Management Policy*, dated January 9, 2009.

of fraud, and the remaining 68 related to allegations of improprieties in the handling of foreclosures.

According to OGC staff, it was FHFA's practice during the audit period to refer consumer complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. However, neither OCAC nor OGC maintained records of complaints forwarded by OCAC to OGC. Thus, OGC was unable to verify that OCAC had forwarded any allegations of fraud and/or improper mortgage foreclosure to OGC, and, if it did, what became of the referrals. OGC was able to confirm, on the other hand, that it had not referred any complaints to law enforcement during the period covered by this audit.

Failure to recognize and quickly provide law enforcement authorities with information about allegations of fraud and other potential criminal conduct presents a significant risk for the Agency. For example, in June 2008, serious allegations of fraud were reported to FHFA's predecessor agency, OFHEO, by an investigative reporter who claimed – in an email – to be in contact with a former employee of Taylor, Bean & Whitaker Mortgage Corp. (TBW), once one of the nation's largest mortgage lenders. The former employee alleged that TBW was fraudulently selling loans to Freddie Mac that TBW had not yet purchased, and that TBW was using the proceeds paid by Freddie Mac to re-pay advances it received. The information was circulated among OFHEO's senior managers (who became FHFA senior managers when OFHEO was consolidated into FHFA at the end of July 2008). OFHEO decided to follow-up on the allegations, but no standard procedures were in place to assure prompt follow-up. As a result, the complaint was neither pursued to completion, nor was it referred to law enforcement authorities for evaluation or possible investigation.

A little more than a year after FHFA's predecessor agency received the email alleging fraud at TBW, federal law enforcement authorities executed a search warrant on TBW's offices in Florida. Warrants were also executed simultaneously at TBW's primary bank, Colonial Bank of Orlando, Florida. Criminal charges followed against multiple individuals, and in April 2011 the former Chairman of TBW was convicted on federal charges of participating in a multi-billion dollar scheme that defrauded Freddie Mac and contributed to the failures of Colonial Bank and TBW. Six other individuals from TBW or Colonial Bank entered pleas of guilty for their roles in the scheme. Although it is impossible to conclude what may have happened if FHFA's predecessor, OFHEO, or FHFA had contacted law enforcement authorities in 2008 – more than one year before the execution of the search warrant – its failure to do so vividly illustrates the importance of expeditiously and thoroughly following-up on complaints of fraud and having procedures to ensure that such follow-up occurs.

Based on the above, FHFA should determine if there are other unresolved complaints alleging fraud to ensure that appropriate action is taken.

4. Follow-up on Consumer Complaints Referred to the Enterprises Was Inconsistent

As previously mentioned, the Agency conducted a limited review of its complaints procedures in late 2010. Although this review did not result in the establishment of a written policy setting

forth FHFA's role and responsibilities with respect to complaints, it led to the adoption of some improvements. For example, FHFA required both Enterprises to submit weekly reports setting forth in narrative form the current status of each complaint that FHFA had previously referred to them for disposition.

Without written policies, however, OCAC staff and the Enterprises continued to lack clear direction regarding the objectives that FHFA intended to achieve in the management and oversight of the weekly reports and the complaints process in general. Each of the Enterprises used different formats for their respective reports and did not categorize them in the same manner. Moreover, OCAC staff did not routinely and promptly reconcile the weekly reports submitted by the Enterprises with the original complaints that FHFA had referred to them in the first place. As a result, OCAC performed no meaningful analysis of the information provided by the Enterprises and did not adequately monitor the Enterprises' handling of complaints. Indeed, OCAC staffers advised that they considered complaints to be resolved or disposed of at the time that they were referred to the Enterprises. Thus, follow-up served no procedural purpose; the complaints were already "closed."

Although FHFA's standard referral letter to the Enterprises requested copies of disposition documentation, in nearly every instance where the Enterprises reported a complaint's status, FHFA took no steps to obtain and review the actual documentation of the transactions that were the subject of the complaint.¹⁷ Of the 470 complaints referred to the Enterprises, FHFA actually obtained all correspondence and disposition documentation in only 2 instances.

5. FHFA Did Not Follow Essential Records Management Policies

FHFA did not follow its records management policy with regard to email complaints it received. FHFA Policy No. 207: *Records Management Policy* (January 9, 2009) requires the following:

FHFA shall create, maintain, and preserve information as records, regardless of physical format, which contain adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Agency to protect the legal and financial rights of the Government and of persons directly affected by the Agency's activities.

Further, FHFA guidance implementing FHFA Policy No. 207 explains that MS Outlook is not an approved recordkeeping system and should not be used as one. Nonetheless, FHFA retained email complaints submitted to the Agency via FHFAInfo@fhfa.gov in MS Outlook. This resulted in two related deficiencies.

First, the Agency did not ensure that the email records were safely stored for efficient retrieval by authorized users. FHFA has not implemented procedures that enable staff to retrieve complaints in an automated fashion. For the Agency to create a universe of email complaints for FHFA-OIG, OCAC staff had to conduct a labor-intensive manual review of the MS Outlook

¹⁷ When FHFA forwarded a complaint to an Enterprise, it included the following standard language in the referral email "...please copy back all correspondence, supporting documentation, and resolution to FHFAInfo@fhfa.gov so that we may track" the complaints.

emails. Furthermore, the Agency has not established how these email records will be managed, transferred, or destroyed at the end of their lifecycle, in accordance with other Agency policy.¹⁸

Second, the Agency did not create records¹⁹ that adequately documented the actions and decisions made regarding incoming email complaints. As previously mentioned, FHFA obtained all correspondence and disposition documentation for email complaints in only two instances. Importantly, FHFA also did not document or retain all actions and decisions made regarding complaints alleging fraud, waste, or abuse. The Agency lacked records documenting its review of these complaints for possible referral to OGC. Furthermore, OGC confirmed that no complaints were forwarded to law enforcement during the audit period. As a result, FHFA was unable to demonstrate full compliance with its records management policy and achieve its intent that the rights of the government and individuals were protected.

6. FHFA Did Not Perform Routine Substantive Analyses to Identify Trends and Risk Areas

FHFA-OIG found no evidence that FHFA staff analyzed the complaints the Agency received, and its systems and lack of procedural guidance inhibited its ability to perform such analysis. Identifying trends and risks is important for a regulator and conservator with limited resources. Reality dictates that a regulator and conservator cannot reasonably hope to have the capacity to cover fully all potential risks; rather, priorities must be established and resources allocated accordingly. Thus, a key focus for a regulator or conservator needs to be the collection of data and the analysis of trends and risks. FHFA missed an opportunity to use complaint information to inform its decision-making.

FHFA did not actually analyze the complaints that it received during the audit period. Further, without information requirements and a consolidated complaint reporting system, FHFA had limited capacity to track particular categories of complaints, such as those involving loan modifications, mortgage disputes, short sales, real estate owned, improper foreclosures, or alleged mortgage fraud. Moreover, because the Agency did not establish uniform record formats or standardize the data elements to be used by FHFA and the Enterprises, the Agency's ability to share information across organizational components and record and track the processing of complaints by subject matter was impaired.

As a result of its unconsolidated systems and deficient procedures, FHFA was unable to perform routine substantive analyses or identify the emergence of trends in the subject matter of complaints received. Such a capacity could have served as an "early warning system" for emerging problems, such as the foreclosure document controversy. As previously discussed, FHFA-OIG's analysis of complaints received by email identified a number of complaints that

¹⁸ See <http://www.archives.gov/records-mgmt/ardor/records-schedules.html>.

¹⁹ A record is any document or information which is "...made or received by an agency of the United States government under federal law or in connection with the transaction of public business...by the agency." A record must be relevant to Agency business. Additionally, the Agency should have continually retained complete email records. A complete record would consist of the following, at a minimum: the email itself, the response, any attachments to the email, and the transmission information.

involved allegations of improper foreclosure activities. The substance of these complaints and actions taken in response to them, if any, were not recorded for analysis. Such analysis could have been used by Agency managers to identify supervisory and regulatory issues at the Enterprises, allocate resources, prepare management reports, and assess the effectiveness of complaint disposition efforts.

7. FHFA Did Not Comply with Safeguards for Personally Identifiable Information Received from Complainants

On August 22, 2010, the Agency issued FHFA Policy No. 301: *Use and Protection of Personally Identifiable Information Policy*, which requires that it:

- Be able to identify personally identifiable information in its possession and take appropriate safeguards to protect it; and
- Instruct users on the proper use, security, and records retention requirements for the systems and records.

In some cases, consumer complaints included personally identifiable information such as complete loan packages with the complainant's name, Social Security number, address, and loan account information. FHFA-OIG found no evidence that FHFA complied with Policy No. 301, which required it to safeguarded personally identifiable information in order to minimize the risk of unauthorized disclosure.

The FHFA staff member who began maintaining the spreadsheet log of telephonic complaints in June 2010 raised questions about the security of personally identifiable information contained in the spreadsheet, and additional instructions were disseminated to remove certain information from the log. Moreover, in October 2010, FHFA noted that suitable protection was still not in place for personally identifiable information received in consumer complaints that were later exchanged with the Enterprises.²⁰ FHFA must ensure that personally identifiable information provided by complainants and forwarded to the Enterprises is properly protected by complying with Policy No. 301 and implementing safeguards commensurate with the potential risk and magnitude of harm that could result from unauthorized disclosure.

8. FHFA Did Not Prioritize Consumer Complaints or Assess the Timeliness of Responses to Complainants

FHFA did not follow a practice of establishing priorities among the complaints received. Complaints such as the 95 emails alleging fraud or improper foreclosure, discussed above, by their very nature, were worthy of special treatment and more intensive management oversight. However, FHFA did not accord them any observable priority to ensure that they were reviewed, evaluated, and properly referred in a timely manner. Importantly, FHFA's Fiscal Year 2010 Annual Performance Plan stated that the Agency will cooperate, collaborate, and communicate

²⁰ FHFA-OIG did not test FHFA's systems controls related to the protection of personally identifiable information for the three systems used to capture complaints.

with other government agencies, the Congress, and the public. Timely and effective resolution of consumer complaints is key to achieving this objective. In addition, there were no observable practices by which OCAC identified any complaints as requiring resolution in advance of time-sensitive events like foreclosure or other legal proceedings.

Although it afforded no priority to complaints, FHFA recognized the importance of properly handling them. FHFA's Fiscal Year 2010 Performance and Accountability Report stated that the Agency was committed to providing accurate information to industry stakeholders and the public in a timely way. The Report also stated that FHFA continued to respond promptly to inquiries from the public, including complaints, during Fiscal Year 2010. However, no specific performance goal concerning complaints was established for 2010. For those inquiries that did not come within the Agency's purview, the Report stated that FHFA staff made every effort to direct the inquirer to the appropriate source. FHFA's Fiscal Year 2008 and 2009 Reports similarly emphasized the importance of timely responses to public inquiries. Nonetheless, FHFA's procedures were inconsistent with its stated intentions.²¹

FHFA-OIG analyzed the 470 complaints referred to the Enterprises. On average, FHFA took approximately 16 days to refer such complaints. However, a significant number of complaints took much longer to be referred: 86 complaints, or 18% of the 470, took more than 30 days for FHFA to forward the complaint to the Enterprises. Moreover, after the complaints were referred, FHFA did not routinely monitor the substance or timeliness of the responses to complainants by the Enterprises. Finally, when the Enterprises provided FHFA with a copy of their response to a complainant, the Agency accepted the Enterprises' responses at face value and performed no independent evaluation of the sufficiency or timeliness of the responses. Indeed, FHFA retrieved all disposition records and correspondence from the Enterprises in only 2 of 470 cases reviewed. As a result, FHFA lacks assurance regarding the responsiveness of the Agency and Enterprises to complainants.

Conclusion

FHFA's Performance Accountability Reports demonstrate that it recognizes the importance of responding appropriately to complaints from members of the public, including consumer complaints pertaining to the Enterprises. Further, OCO recently conducted a review of complaint procedures and encouraged the Agency to assume a more active role in the monitoring of complaints. Notwithstanding this, FHFA historically relegated processing complaints to a public or external relations function rather than treating it as a core supervisory and regulatory responsibility; thus, it provided minimal emphasis and resources to the task. FHFA needs to define clearly its complaint-related objectives, its role and responsibilities for meeting those objectives, and its means for gauging its performance in meeting its objectives. This is particularly important given FHFA's responsibilities as conservator for the Enterprises. FHFA would also benefit from establishing better oversight of the Enterprises' complaint procedures,

²¹ FHFA considered a complaint "closed" or "responded to" upon referral to either of the Enterprises, regardless of whether a substantive disposition had been achieved. Because approximately three quarters of FHFA's complaints were referred to the Enterprises, this resulted in the appearance that complaints were resolved more quickly than was the case.

including conducting periodic substantive reviews of statistically sound random samples of complaints processed and following-up on all complaints to help ensure appropriate disposition. FHFA should also be cognizant of the need to assign appropriate resources to the complaints process.

Recommendations

FHFA-OIG recommends that the Senior Associate Director for Congressional Affairs and Communications, in coordination with other appropriate FHFA officials:

- 1A. Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:
 - Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
 - Require the retention of supporting documentation for all processing and disposition actions;
 - Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
 - Ensure timely and accurate responses to complaints;
 - Facilitate the analysis of trends in consumer complaints received and use the resulting analyses to mitigate areas of risk to the Agency;
 - Safeguard personally identifiable information; and
 - Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.
- 1B. Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.
- 1C. Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this performance audit was to assess how FHFA processed consumer complaints. Specifically, FHFA-OIG assessed the Agency's procedures and controls for receiving, processing, and resolving complaints from the public prior to the commencement of FHFA-OIG's operations.²² When designing the scope of this audit, FHFA-OIG's plan was to include all complaints received by FHFA from its inception on July 30, 2008, through October 31, 2010, a period of 27 months. However, that plan could not be carried out because FHFA was unable to provide a comprehensive analysis and adequate records of complaints that it had received.

Field work for this audit was performed from December 2010 through April 2011. FHFA-OIG conducted this audit at FHFA's three offices located in Washington, D.C., and reviewed available information on the processing of complaints. FHFA-OIG also interviewed FHFA personnel. To achieve its objective, FHFA-OIG relied on computer-processed and hard copy data from FHFA. This included data contained in the TRAKKER system, plus a spreadsheet and the Agency's MS Outlook email account. FHFA used the MS Outlook account to create an MS Access database of the emails that it considered to be complaints, and FHFA-OIG relied on this database. FHFA-OIG assessed the validity of the computerized data and found it to be generally accurate, but could not conclude on its completeness.

Regarding written complaints, FHFA was unable to identify for FHFA-OIG all written complaints received because the TRAKKER system did not segregate complaints, and FHFA would have had to perform a lengthy manual inspection to isolate all complaints. Alternatively, FHFA could not provide descriptive records sufficient to establish the number of complaints received and logged into the TRAKKER system, their subject matter, the means employed by FHFA to resolve them, or other relevant information. As a result, FHFA-OIG was unable to analyze written complaints.

With respect to telephone complaints, FHFA-OIG was provided a phone log with 283 entries that was created by an OCAC employee on her own initiative during the 5 month time period beginning in June 2010. The information that was recorded, however, primarily consisted of contact information and the nature of each call. This information was not sufficient to determine if a complaint was, in fact, received, or how FHFA resolved it. As a result, FHFA-OIG was unable to analyze the telephone complaints. These matters – concerning written and telephone complaints – constituted a scope limitation for this audit.

FHFA-OIG assessed the internal controls related to its audit objective. Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial report; and

²² The audit was not intended or designed to assess how the Enterprises processed complaints.

- 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. Based on the work completed on this performance audit, FHFA-OIG considers its finding on FHFA's oversight of the receipt, processing, and disposition of consumer complaints to be a significant deficiency in internal control within the context of the audit objective.

FHFA-OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for FHFA-OIG's findings and conclusions based on the audit objective. FHFA-OIG believes that the evidence obtained provides a reasonable basis for the finding and conclusions included herein, based on the audit objective.

APPENDIX A:

FHFA'S COMMENTS TO FHFA-OIG'S DRAFT REPORT



Federal Housing Finance Agency

MEMORANDUM

TO: Russell Rau, Deputy Inspector General for Audit, Office of the Inspector General (OIG)

FROM: Meg Burns, Senior Associate Director, Office of Congressional Affairs and Communications (OCAC) *Meg Burns*

SUBJECT: Audit Report: Audit of Federal Housing Finance Agency's Consumer Complaint Process (AUD-2011-001)

DATE: June 6, 2011

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to recommendations set forth in the OIG audit of FHFA's consumer complaints process, performed from December 2010 to April 2011.

This memorandum: (1) expresses management's agreement with the recommendations; and (2) identifies the actions that FHFA will take to address the recommendations.

Background

As a result of widespread distress in the housing market in 2008, FHFA began to receive an elevated level of public inquiries and complaints. Prior to that time, the Office of Federal Housing Enterprise Oversight, one of FHFA's predecessor agencies, received almost no correspondence or communications from individual consumers. The volume of calls and inquiries further increased upon deployment of the Administration's Home Affordable Modification Program (HAMP) program in mid-2009. Since that time, consumer inquiries, concerns, and complaints have been directed not only to FHFA but also to the Enterprises, the White House, federal and state banking regulators, and a number of other federal agencies -- often as multiple addressees on a single piece of correspondence. Unlike many of the other agencies that were receiving an increased number of public inquiries, FHFA had no dedicated staff nor procedures in place to handle the new responsibility. Further, the volume of calls and written complaints that FHFA received and continues to receive is substantially lower than that of other agencies that have a more consumer-facing orientation. That said, the informal process that was established was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the agency. FHFA's primary duty in handling the communications has been to refer consumers to other parties that can provide some form of assistance or relief.

To gain clarity about the relative demand on agency resources and whether the existing infrastructure needed upgrading, FHFA's Acting Director in 2010 requested that FHFA's Office of Internal Audit (OIA) conduct a survey of the agency's external communications infrastructure. OIA concluded that existing practices were insufficient to meet the greatly increased demand, and FHFA engaged the Concentrance Consulting Group (Concentrance) to assist the agency in designing a set of centralized and efficient policies and procedures, as well as automated tools to support FHFA's communications with external parties.

The Concentrance final report was received May 5, 2011. The objectives and options presented in that report are relevant to the OIG Audit report's three recommendations, and will help FHFA build on best practices identified at other agencies that also handle consumer inquiries and complaints.

We request that the OIG report include the date of the Concentrance final report, to provide balance and context to the statement on Page 8, paragraph 2, sentence 2 "...nor has it implemented any of the contractor's recommendations." Without the actual timeframe, it appears that FHFA has not considered the contractor's recommendations in a timely manner.

FHFA's response to the OIG recommendations follows:

Recommendation 1A: Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:

1. Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
2. Require the retention of supporting documentation for all processing and disposition actions;
3. Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
4. Ensure timely and accurate responses to complaints;
5. Facilitate the analysis of trends in consumer complaints received, and use the resulting analyses to mitigate areas of risk to the Agency;
6. Safeguard personally identifiable information; and
7. Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.

Management Response:

FHFA agrees with the recommendation. The agency will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries. This work will be completed by December 31, 2011.

The written policy will clarify that FHFA will continue to accept consumer inquiries, promptly redirecting cases to an appropriate entity, while making clear that the agency has limited mandate and ability to impact the outcome of the vast majority of individual consumer issues. In the event that any trends can be discerned from the limited pool of inquiries that FHFA receives, the information received may be shared with the agency's examination staff.

Recommendation 1B: Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.

Management Response:

FHFA agrees with the recommendation. FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures described above. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function. The assessment will be completed by December 31, 2011.

Recommendation 1C: Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

Management Response:

FHFA agrees with this recommendation. FHFA Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received. The example cited in the OIG report, to demonstrate that a consumer complaint could help the agency identify instances of significant fraud or misrepresentation, was not representative of the types of public inquiries that FHFA has received to date, nor was it within the scope of the audit, in terms of time frame or type of communication. FHFA requests that the two paragraphs that reference a reporter contacting the agency in June 2008, regarding an employee at Taylor, Bean, and Whitaker (TBW) and the ultimate resolution of TBW, be removed from the report.

APPENDIX B:

FHFA-OIG'S RESPONSE TO FHFA'S COMMENTS

On June 6, 2011, FHFA provided comments to a draft of this report agreeing with all the recommendations and identifying FHFA actions to address each recommendation. FHFA-OIG considers the actions sufficient to resolve the recommendations, which will remain open until FHFA-OIG determines that agreed upon corrective actions are completed and responsive to the recommendations. See Appendix C of this report for a summary of management's comments on the recommendations.

FHFA commented that the established, informal complaints process was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the Agency. FHFA-OIG considers the handling of consumer complaints to serve an important role in fulfilling the regulatory responsibilities of the Agency that should be integrated with its safety and soundness oversight of the Enterprises. Additionally, FHFA-OIG reemphasizes the importance of a consolidated management reporting system for all consumer complaints received by the Agency and the Enterprises as discussed in this audit report.

As the Agency requested, FHFA-OIG included the receipt date of May 5, 2011, for FHFA's contractor's final report on page 8 of this report.

FHFA noted that it has a limited mandate regarding consumer complaints. However, pursuant to 12 U.S.C. § 4513(a)(1)(B), FHFA has the authority to ensure that the Enterprises comply with FHFA's rules, regulations, guidelines, and orders, and that they operate in a fashion consistent with the public interest. FHFA – in its discretion – decided to implement this authority to handle consumer complaints. This audit assessed the quality of FHFA's implementation.

FHFA requested that FHFA-OIG remove from this report the discussion of TBW's fraud on Freddie Mac, claiming that it was outside the scope of this audit. FHFA-OIG disagrees. Although the initial complaint was submitted to FHFA's predecessor organization, OFHEO, one month before the audit period (and one month before OFHEO was consolidated into FHFA), FHFA was in possession of the complaint and aware of it during the audit period. Further, the fraud continued well into the audit period. FHFA's failure to act on the complaint serves as a stark example of the consequences of failing to appropriately address complaints of fraud, waste, or abuse.

Subsequent to receiving FHFA's comments to the draft report, the Agency provided FHFA-OIG with an expected completion date of December 31, 2011, for Recommendation 1C. Thus, this date was included in the summary of management's comments on the recommendations (see Appendix C).

APPENDIX C:

SUMMARY OF MANAGEMENT'S COMMENTS ON THE RECOMMENDATIONS

This table presents the management response to the recommendations in FHFA-OIG's report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1A	FHFA will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries.	12/31/2011	\$0	Yes	Open
1B	FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures cited in Recommendation 1A. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function.	12/31/2011	\$0	Yes	Open
1C	FHFA's Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received.	12/31/2011	\$0	Yes	Open

^a Resolved means – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation; or (3) Management agrees to the OIG monetary benefits, a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

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- Email us at: oighotline@fhfa.gov or
- Write to us at:

FHFA Office of Inspector General
Attention: Office of Investigations – Hotline
1625 Eye Street, NW
Washington, D.C. 20006-4001

**FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL**

**Audit of the Federal Housing Finance Agency's
Consumer Complaints Process**



AUDIT REPORT: AUD-2011-001

DATED: JUNE 21, 2011



Audit of the Federal Housing Finance Agency's Consumer Complaints Process

At a Glance

Why FHFA-OIG Did This Audit

In September 2008, the Federal Housing Finance Agency (FHFA or Agency) placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises) into conservatorships in an effort to restore their financial health. As of March 31, 2011, the U.S. Department of the Treasury had invested nearly \$154 billion in the Enterprises, and the Federal Reserve has taken major steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. At the same time, consumers suffering from the effects of the crisis increasingly filed complaints with the Enterprises and FHFA, the conservator and regulator of the Enterprises. FHFA staff estimated that 70% - 75% of all complaints to the Agency pertained to the Enterprises.

In light of these events, Congress and others expressed interest in whether FHFA adequately responded to consumer complaints including, but not limited to, complaints of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The FHFA Office of Inspector General (FHFA-OIG) initiated this audit to assess how FHFA processed consumer complaints.

What FHFA-OIG Recommends

FHFA-OIG recommends that the Agency: (1) design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints and allegations of fraud, that, among other things, define the related roles and responsibilities for FHFA and the Enterprises and provide for consultation with FHFA-OIG to process allegations of fraud; (2) assess the sufficiency of resources allocated to the complaints process; and (3) determine whether there are unresolved complaints alleging fraud or other potential criminal activity.

In response to FHFA-OIG's findings and recommendations, FHFA provided written comments, dated June 6, 2011. The Agency agreed with the recommendations. The complete text of the written comments can be found in Appendix A of this report.

What FHFA-OIG Found

FHFA did not adequately process consumer complaints. Specifically, FHFA did not: (1) sufficiently define its role in processing complaints received by the Agency or the Enterprises; (2) develop and maintain a consolidated system for receiving and processing complaints; (3) establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities; (4) consistently follow-up on consumer complaints referred to the Enterprises; (5) comply with its records management policy; (6) perform routine substantive analyses to identify overall trends in complaints; (7) comply with safeguards for personally identifiable information received from complainants; and (8) prioritize complaints or assess the timeliness of responses to complainants.

These deficiencies occurred because FHFA did not establish a sound internal control environment governing consumer complaints, including formal policies and procedures for complaints received by FHFA and the Enterprises. Additionally, FHFA did not assign the complaint processing function sufficient priority, did not allocate adequate resources to the function (it assigned two individuals from its public relations staff to carry out the function), and did not provide effective oversight including performance reporting on the resolution of complaints (it was unable to identify the total number of complaints received during the audit period and report the disposition of each complaint). As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, such as improper foreclosures, were appropriately addressed in an efficient and effective manner in order to minimize risks. This is particularly important given FHFA's responsibilities as conservator for the Enterprises.

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ABBREVIATIONS/ACRONYMS

Fannie Mae.....	Federal National Mortgage Association
FBI	Federal Bureau of Investigation
FHFA or Agency.....	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
FHLBanks	Federal Home Loan Banks
Freddie Mac.....	Federal Home Loan Mortgage Corporation
HERA.....	Housing and Economic Recovery Act of 2008
MS.....	Microsoft®
OCAC	Office of Congressional Affairs and Communications
OCO	Office of Conservatorship Operations
OFHEO	Office of Federal Housing Enterprise Oversight
OGC	Office of General Counsel
TBW.....	Taylor, Bean &Whitaker Mortgage Corp.

Federal Housing Finance Agency

Office of Inspector General

Washington, D.C.

PREFACE

FHFA-OIG was established by the Housing and Economic Recovery Act of 2008 (Public Law No. 110-289), which amended the Inspector General Act of 1978 (Public Law No. 95-452), to conduct audits, investigations, and other activities of the programs and operations of FHFA; to recommend policies that promote economy and efficiency in the administration of such programs and operations; and to prevent and detect fraud and abuse in them. This is one of a series of audits, evaluations, and special reports published as part of FHFA-OIG's oversight responsibilities to promote economy, effectiveness, and efficiency in the administration of FHFA's programs.

The objective of this performance audit was to assess how FHFA processed consumer complaints. The audit found that FHFA did not have an adequate complaints process. For example, FHFA assigned only two individuals to process complaints; did not segregate complaints from other correspondence within its systems; did not refer potentially criminal allegations to law enforcement authorities; and did not consistently log telephone complaints. FHFA-OIG believes that the recommendations contained in this report will help the Agency develop and adopt more economical, effective, and efficient operations. FHFA-OIG appreciates the assistance of all those who contributed to the audit.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on FHFA-OIG's website: <http://www.fhfaog.gov/>.



Russell A. Rau
Deputy Inspector General for Audits

BACKGROUND

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (HERA) established FHFA as regulator of the three housing-related government-sponsored enterprises: Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). FHFA's mission is to promote their safety and soundness, support housing finance and affordable housing goals, and facilitate a stable and liquid mortgage market.

On September 6, 2008, just five weeks after its creation, FHFA became conservator of Fannie Mae and Freddie Mac, and the U.S. Department of the Treasury (Treasury) began providing the Enterprises substantial financial support. As conservator, FHFA preserves and conserves the assets and property of the Enterprises, ensures they focus on their housing mission, and facilitates their financial stability and emergence from conservatorship. As of March 31, 2011, Treasury had invested almost \$154 billion in the Enterprises in an effort to stabilize their operations and the mortgage market generally. The Federal Reserve also took steps to support the Enterprises, such as committing to purchase up to \$1.25 trillion of their securities.

On October 12, 2010, FHFA's first Inspector General was sworn in, and FHFA-OIG commenced operations. In November 2010, FHFA-OIG initiated this audit to assess how FHFA processed consumer complaints. For purposes of this report, consumer complaints include, but are not limited to, those involving allegations of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from the Enterprises to allegations of potential criminal activity. The time period covered by this audit begins with the creation of the Agency on July 30, 2008, and continues for two years and three months, through October 31, 2010, when FHFA-OIG's operations began.

Overview of Consumer Complaints

Consumer Complaints Pertaining to FHFA and the Enterprises

The current national housing finance crisis has left millions of existing borrowers, communities, and investors struggling with delinquent and defaulted mortgages, loan modifications, and foreclosures. FHFA reported in its Fiscal Year 2010 Performance and Accountability Report that continued uncertainty about economic conditions, employment, housing prices, and mortgage delinquency rates were likely to result in additional losses and Treasury investments in the Enterprises.

The deteriorating financial conditions in the housing market have been accompanied by a substantial increase in consumer complaints, including those about the Enterprises. While both Enterprises developed internal controls to manage these complaints, a December 2, 2010, FHFA review of the Enterprises' consumer complaints procedures – when describing the rationale for conducting the review – reported an “increased number of repeat complaints and increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive.” Consumers file complaints with FHFA, the Enterprises, or both. In some instances, consumers elevated to FHFA their complaints that were initially filed with the Enterprises. Although FHFA personnel

were unable to identify the total number of complaints received during the audit period, they stated that the number of individuals who contacted the Agency with complaints increased dramatically. Further, more than 70% of all consumer complaints received by FHFA during the audit period were submitted by individuals who claimed they were experiencing problems with the Enterprises.¹

Complaints of Fraud, Waste, or Abuse

During the audit period, the nation also witnessed a dramatic surge in mortgage fraud cases. According to statistics released by the Federal Bureau of Investigation (FBI) in July 2009, there was a 36% increase in reports of mortgage fraud in fiscal year 2008 compared to fiscal year 2007.² Further, financial institutions estimated that they lost at least \$1.4 billion to mortgage fraud in fiscal year 2008, an increase of 83% in estimated losses over fiscal year 2007.

FHFA received complaints alleging fraud, waste, or abuse through the same processes as consumer complaints. Many of these allegations involved possible improper foreclosure actions on single family residential mortgages, which is an area of considerable risk because of the potential adverse impact on the consumer.

FHFA's Consumer Complaints Process

Beginning in late 2008, FHFA assigned the task of handling consumer complaints to two individuals who worked in the Office of Congressional Affairs and Communications (OCAC), the unit responsible for handling most of the Agency's external correspondence. The two employees were given consumer complaint processing duties in addition to their existing significant responsibilities.

FHFA's practices for processing consumer complaints varied according to the means of their communication and their subject matter. Written, email, and telephone complaints were processed separately and differently. Additionally, depending upon the subject matter, OCAC forwarded complaints to the Enterprises or processed them internally.

Written Complaints

During the audit period, FHFA received written correspondence by U.S. mail, private express mail carrier, and telefax. All such correspondence, including written complaints, was delivered to the Office of the Director and entered into FHFA's internal electronic information system, known as TRAKKER.³

¹ Sometimes the Agency received complaints from current and former employees of the Enterprises. This audit did not extend to complaints from employees related to personnel issues.

² See, 2009 Mortgage Fraud Report "Year in Review," FBI National Press Release, dated July 7, 2009, available at <http://www.fbi.gov/stats-services/publications/mortgage-fraud-2009>.

³ FHFA developed this electronic system in 2008 to serve as a document storage system for hard copy, written correspondence received by the Agency.

Within TRAKKER, FHFA did not prioritize consumer complaints. FHFA's external correspondence was subdivided into categories or classifications. One such category was "public inquiries," which included consumer complaints. Other categories included Congressional correspondence and stakeholder inquiries. FHFA did not assign any priority to the public inquiries category. Further, although FHFA advised that all written complaints were filed within the public inquiries category, FHFA-OIG's random review of correspondence retained throughout the TRAKKER system revealed that complaints were also filed among other categories in the system, including the "Presidential" communications category. Thus, even if the Agency had manually culled complaints from the public inquiries category, it still would not have identified all written complaints for this audit.

Complaints logged into the public inquiries category of the TRAKKER system were commingled with other general correspondence. TRAKKER did not provide FHFA with the capability to separate complaint correspondence from all other correspondence. No sub-classifications, codes, or categories were entered at the time of logging that would allow FHFA later to identify correspondence containing complaints. As a result, FHFA cannot efficiently and accurately report – or even provide summary information – concerning the volume or type of written complaints received by the Agency, the number of unresolved complaints, the average amount of time to resolve a complaint, or how complaints were resolved. Because complaints were commingled with multiple types of general correspondence, the Agency was also unable to analyze trend data and identify risk areas. Accordingly, the Agency was unable to efficiently fulfill FHFA-OIG's request for complaints received during the audit period. FHFA had no capability – short of a manual inspection – to access the written complaints it had received over the course of the 27 month audit period. This inability was a limitation in the scope of the audit.

Electronic Mail Complaints

FHFA also commingled email complaints with other external email communications, which again, inhibited its ability to report efficiently and accurately on the volume, types, timing, and resolution of complaints. In late 2008, FHFA established a public email account (FHFAInfo@fhfa.gov) and posted the address on the Agency's website. The subject matter of the emails received from the public varied and included, among other things, comments, questions, and complaints. Emails received from the public were retained in the Agency's email system. However, similar to the Agency's practice with respect to written correspondence, FHFA did not adopt a system or procedures to preserve and retain separately emails containing complaints from the entire universe of external emails that it received. Accordingly, FHFA's email complaints suffer from some of the same deficiencies noted with respect to written complaints retained in the TRAKKER system.

FHFA-OIG manually reviewed all emails that were received and designated as a complaint by the Agency for the specified audit period. The Agency formulated the emails into a database that FHFA-OIG used for the audit. FHFA-OIG determined that 585 consumer email complaints were received during the audit period. Of these complaints, 115 were retained by the Agency for

internal processing⁴ and the remaining 470 complaints were referred to the Enterprises. FHFA-OIG also determined that 27 complaints included allegations of fraud,⁵ and 68 contained allegations of improper foreclosures.

According to the Office of General Counsel (OGC) staff, it was FHFA's practice to refer email complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. But, according to OGC, no records exist showing how many such complaints were referred for review to OGC, the nature of the complaints reviewed, or their disposition. Further, OGC confirmed that no complaints were referred to law enforcement authorities during the audit period.

Telephone Complaints

Telephone complaints that came into the Agency were transferred to OCAC staff. However, prior to June 2010, incoming telephone calls from individuals who registered complaints about the Agency or the Enterprises were not recorded. As a result, the nature of each complaint was not described, and the complainant's information was not retained. Further, a description of the disposition of each complaint was not preserved. In June 2010, however, one OCAC employee began logging telephone complaints by entering and saving complainant contact information on a spreadsheet. This practice was not uniformly followed. Specifically, no other OCAC or FHFA staff member logged telephone complaint information. Therefore, overall information on the number of these complaints was not available, which, similar to the situation with written complaints, posed a scope limitation for the audit. Moreover, the inadequate recordkeeping represents a significant shortcoming in the complaint resolution process.

FHFA Debated Its Role in the Complaints Process for Two Years

Although FHFA recognized the importance of properly handling complaints in its Fiscal Year 2010 Performance and Accountability Report – stating that it was committed to providing accurate information to industry stakeholders and the public in a timely way – it debated the nature and scope of its role for two years and did not implement needed improvements.

In March and April 2009, FHFA senior managers engaged in a debate recorded in emails concerning FHFA's role in the complaints process. An individual complained to FHFA about having difficulties obtaining information related to a home sale under Freddie Mac's "Home Steps" program. The series of internal FHFA emails concluded with the following reply email, dated April 1, 2009, from an FHFA senior manager to seven other FHFA officials and staff:

My own view – we are the regulator and conservator. It is a slippery slope for us to be responding to complaints about individual transactions like this. If we think this is

⁴ In some cases, internal processing constituted a summary determination that no action was required.

⁵ The scope of this audit did not include assessing the validity of the allegations received by FHFA. Additionally, although FHFA-OIG was able to track and analyze the disposition of email complaints, it was unable to perform similar analyses on telephone and written complaints due to the lack of documentation.

evidence of a more general problem or concern we have, we should use it to communicate with the appropriate regulated entity about the problem. Otherwise, I see no merit to responding to (Mr. X) beyond perhaps a stiffly worded “we received your communication and have forwarded your concern to an appropriate party. As a general matter we do not intervene in individual transactions” or something like that ... The response should come from OER.⁶ OCO⁷ can then send the email trail to Fannie ... and simply say we are passing along this communication for your information. You may take whatever action you deem appropriate. We plan no follow-up.

Debate within the Agency continued through 2009 and into 2010. In September 2010, consistent with the FHFA senior manager’s conclusion quoted above, the Agency posted on its website an item entitled, “FHFA: Frequently Asked Questions,” which included two sample questions concerning complaints.⁸ After describing the facts of the underlying complaint, the first inquiry concluded, “Can FHFA resolve this situation for me?” FHFA replied that:

Under conservatorship, FHFA has delegated certain authorities to Fannie Mae and Freddie Mac, including responsibility for day to day business operations. FHFA generally does not intervene in matters involving individual mortgages, property sales or transfers, foreclosures, or other actions.

The second inquiry asked:

I have spent long periods of time trying to reach a representative at Fannie Mae or Freddie Mac by phone, or I have had unsatisfactory interactions with representatives once I have gotten through to one of the companies. As regulator and conservator of the Enterprises, will FHFA resolve the issue or help me reach a person who will help solve my problem?

FHFA responded with the same explanation about FHFA’s delegation to the Enterprises, but elaborated as follows:

Both Enterprises have experienced unprecedented levels of calls, emails, and letters in the past two years since the housing crisis began and phone call centers are sometimes overwhelmed. We urge borrowers to be patient as they attempt to contact the Enterprises directly to resolve mortgage-related issues.

Throughout this period, the Agency’s posture was that the Enterprises, not FHFA, should handle complaints, and that FHFA’s handling of complaints was simply a “courtesy” provided to consumers. Further, FHFA did not clarify what role it should play in overseeing the Enterprises’ resolution of complaints. For example, FHFA issued no guidance concerning the content and format of resolution reports, did not routinely reconcile reports, and obtained and reviewed

⁶ “OER” was the acronym that FHFA used to refer to its Office of External Relations, which was the predecessor to OCAC.

⁷ “OCO” is an acronym used to describe the Office of Conservatorship Operations.

⁸ See <http://www.fhfa.gov/Default.aspx?Page=316>.

disposition documentation in only two cases (even though such documentation was requested for complaints forwarded to the Enterprises for a response).⁹

In October 2010, OCO began a review of the consumer complaints process at Fannie Mae and Freddie Mac. OCO's decision to conduct the review purportedly was "based on the increased number of repeat complaints and the increased number of consumers who claim Fannie Mae or Freddie Mac are not responsive."¹⁰ Based on its review, OCO recommended that FHFA address long-standing questions concerning its role in resolving consumer complaints. OCO rhetorically asked, "What role does FHFA want or need to play in the consumer complaint arena?" Should FHFA play an active role in complaint resolution, "or determine that they are an intermediary" and simply refer complaints to the Enterprises? Responding to its questions, OCO observed that FHFA must determine whether to involve itself only with complaints sent to FHFA or to play some role in reviewing the resolution of all complaints sent to the Enterprises. The OCO report's final section, entitled "OCO Minimum Suggestions," urged FHFA to "take a more active monitoring position in the complaint process." Specifically, the report concluded that FHFA should better manage its consumer complaint referral process, including doing the following: (1) actively monitoring the weekly reports¹¹ to ensure that sufficient information is obtained; and (2) obtaining and reviewing at least a sample of the actual documentation for sufficiency in addressing the complaints.

Additionally, in response to recommendations by FHFA's former Office of Internal Audit, the Agency engaged a contractor to assess its internal controls over the handling of external stakeholder correspondence, including consumer complaints. As of the Agency's June 6, 2011, comments to a draft of this report, the Agency had neither fully resolved the internal debate concerning its role in the consumer complaint process nor implemented any of the recommendations included in its contractor's final report received on May 5, 2011.¹²

⁹ FHFA-OIG did not assess the processes used by the Enterprises to handle complaints received either directly or from FHFA.

¹⁰ The reasons for the review are unclear, but there is evidence that it may have been prompted by FHFA-OIG's inquiries on the subject. Although FHFA claims that its decision was prompted by the volume of complaints and concerns about the Enterprises' responsiveness, the Agency's meeting minutes indicate that an OCO staff member explained to one of the Enterprises that "FHFA is trying to gain a better understanding of the consumer complaints process at both Enterprises, especially in light of a recent IG request."

¹¹ In late 2009, FHFA began receiving weekly reports from the Enterprises that outlined the status of the referred complaints. However, the weekly reports were strictly narrative and were not supplemented by supporting documentation. Also, FHFA did not conduct adequate and/or timely reconciliations of the weekly reports to ensure that proper action was taken to address the complaints. FHFA officials stated that informal reconciliations of the complaints were performed; however, this process was not documented. Furthermore, OCAC staff explained that they were at one point up to five weeks behind in conducting the reconciliations.

¹² We did not assess the status of FHFA's implementation of the recommendations in the contractor's report, but instead relied on statements included in FHFA's June 6th comments.

RESULTS OF THE AUDIT

Finding: FHFA's Oversight of the Receipt, Processing, and Disposition of Consumer Complaints Was Inadequate

For the period of July 30, 2008, through October 31, 2010, FHFA did not adequately process consumer complaints, including those alleging fraud, waste, or abuse. Specifically, FHFA did not:

- (1) Sufficiently define its role in processing complaints received by the Agency or by the Enterprises;
- (2) Develop and maintain a consolidated system for receiving and processing complaints;
- (3) Establish effective procedures for evaluating complaints alleging potential criminal conduct and for referring such complaints to law enforcement authorities;
- (4) Consistently follow-up on consumer complaints referred to the Enterprises;
- (5) Comply with its records management policy;¹³
- (6) Perform routine substantive analyses to identify overall trends in complaints;
- (7) Comply with safeguards for personally identifiable information received from complainants; or
- (8) Prioritize complaints or assess the timeliness of responses to complainants.

This occurred because the Agency did not establish a sound internal control environment¹⁴ that included formal policies and procedures regarding complaints processing. Further, FHFA did not assign the complaint processing function sufficient priority, allocate adequate resources, or perform effective oversight, including performance reporting on the resolution of complaints. As a result, FHFA lacks assurance that complaints, including those alleging fraud, waste, or abuse, were appropriately addressed in an efficient and effective manner.

1. FHFA Did Not Sufficiently Define Its Role in the Consumer Complaints Process

As the regulator and conservator of the Enterprises, FHFA did not sufficiently define its role and responsibilities for the receipt, processing, and disposition of consumer complaints. For example, FHFA has not:

- Clearly defined its role in resolving consumer complaints;
- Developed and adopted a formal policy establishing organizational responsibilities for receiving, processing, and resolving complaints. FHFA-OIG found no written policies or procedures governing the complaints process;

¹³ FHFA Policy No. 207: *Records Management Policy*, dated January 9, 2009.

¹⁴ The Government Accountability Office published *Standards for Internal Control in the Federal Government*, dated November 1, 1999, which discusses the control environment in terms of management's framework for planning, directing, and controlling operations to achieve objectives.

- Provided the necessary resources to address complaints and instead – without providing additional needed training – assigned the task of processing all complaints to two employees who already had significant responsibilities within OCAC;
- Conducted appropriate follow-up on the disposition of complaints referred to the Enterprises, nor has it obtained and reviewed the supporting documentation reflecting such disposition; or
- Actively monitored all pending complaints or developed the capacity to do so.

FHFA-OIG concluded that FHFA’s failure was largely the result of its inability to decide whether to handle consumer complaints, and how to address those complaints it decided to handle. From the onset, FHFA treated its complaints processing function more as a public or external relations task, as opposed to a core regulatory or conservator function.

To date, FHFA has not published formal policies and procedures that could serve as a guide to its employees and could inform the public regarding whether FHFA is prepared to intervene on behalf of citizens who experience difficulties in matters involving the Enterprises. FHFA has been aware of the problem; indeed, it has debated the issue for two years.

FHFA assigned the responsibility for the receipt, processing, and disposition of complaints to two OCAC employees. Both individuals had significant responsibilities in addition to processing the complaints coming into the Agency. As a result, the OCAC employees were limited in their ability to focus attention on complaint processing even though the Agency reported that complaint activity was increasing. Moreover, the OCAC staff members did not have a clear statement of FHFA’s intent to address complaints, as would be the case if the Agency had written policies and procedures for processing complaints. Indeed, one of the two OCAC employees who handled complaints advised an OCAC senior manager that she was concerned that FHFA’s procedures for handling complaints could become “an emergency situation or embarrassing PR nightmare.”

Additionally, the two OCAC staffers who managed FHFA’s complaints process routinely made *ad hoc*, important decisions regarding complaint referrals from FHFA to other government agencies, external organizations, and the Enterprises. These decisions were not governed by an Agency-wide policy, there were no required approvals or management oversight of such actions, and there were no procedures to provide supervisors with evidentiary support for their decisions or to perform follow-up. The OCAC staffers received no specific training regarding how to evaluate complaints or how to identify allegations requiring further action by the Agency or referral to law enforcement authorities, such as the Department of Justice or the FBI.

2. FHFA Did Not Develop and Maintain a Consolidated System for Receiving and Processing Consumer Complaints

FHFA used three separate systems to log complaints: (1) a Microsoft® (MS) Excel spreadsheet to log telephonic complaints;¹⁵ (2) an MS Outlook email account to log email complaints; and (3) the TRAKKER system to log hard copy complaints, including letters and faxes. Further, FHFA did not monitor complaints sent directly to the Enterprises. This decentralized methodology limited oversight of the total population of complaints because there was no consolidated management reporting system.¹⁶ In fact, FHFA was unable to identify the total number of complaints the Agency and Enterprises received during the audit period. Without such a consolidated system, the Agency was unable to provide transparency of the complaints environment, including management reporting and appropriate access to Agency staff to facilitate effective oversight of the complaints process.

Additionally, FHFA lacked formal procedures governing its process for tracking and reconciling complaints using the three systems identified above, as well as the Enterprises' reports. This lack of procedures impaired the consistency and usefulness of the information maintained and oversight of the complaints process.

FHFA also did not establish minimum information requirements necessary to make well-supported and documented decisions regarding the processing of complaints. Consumer complaints received by the Agency covered a variety of topics and contained a wide range of information – from as little as the complainant's first name to more than a year's worth of written correspondence and documentation, sometimes including complete loan packages. FHFA, however, took no action to establish a consolidated management reporting system for complaints, standard complaint documentation, data elements for required information, or consistent categories and classifications of complaints that would be useful in controlling the complaints process and ensuring Agency and Enterprise responsiveness to complainants.

Rather than develop a consolidated management reporting system for complaints, FHFA tolerated an inefficient, decentralized complaints process. As a result, it lost track of more than two years of written, telephone, and email complaints and lacks assurance regarding the adequacy of responses.

3. FHFA Did Not Establish Effective Procedures for the Evaluation and Referral of Consumer Complaints Alleging Fraud, Waste, or Abuse

FHFA-OIG determined that there were 585 email complaints submitted during or in close proximity to the audit period. These complaints were received by FHFA and, in some cases, one of its predecessor agencies (the Office of Federal Housing Enterprise Oversight (OFHEO)). Among the complaints reviewed by FHFA-OIG, there were 95 complaints containing allegations of fraud and/or improper mortgage foreclosure. Of these 95 complaints, 27 involved allegations

¹⁵ As previously discussed, the spreadsheet was used by only one employee, and its use began in June 2010.

¹⁶ A reporting system must meet the requirements in FHFA Policy No: 207: *Records Management Policy*, dated January 9, 2009.

of fraud, and the remaining 68 related to allegations of improprieties in the handling of foreclosures.

According to OGC staff, it was FHFA's practice during the audit period to refer consumer complaints containing allegations of possible fraud, waste, or abuse to OGC for review and appropriate action. However, neither OCAC nor OGC maintained records of complaints forwarded by OCAC to OGC. Thus, OGC was unable to verify that OCAC had forwarded any allegations of fraud and/or improper mortgage foreclosure to OGC, and, if it did, what became of the referrals. OGC was able to confirm, on the other hand, that it had not referred any complaints to law enforcement during the period covered by this audit.

Failure to recognize and quickly provide law enforcement authorities with information about allegations of fraud and other potential criminal conduct presents a significant risk for the Agency. For example, in June 2008, serious allegations of fraud were reported to FHFA's predecessor agency, OFHEO, by an investigative reporter who claimed – in an email – to be in contact with a former employee of Taylor, Bean & Whitaker Mortgage Corp. (TBW), once one of the nation's largest mortgage lenders. The former employee alleged that TBW was fraudulently selling loans to Freddie Mac that TBW had not yet purchased, and that TBW was using the proceeds paid by Freddie Mac to re-pay advances it received. The information was circulated among OFHEO's senior managers (who became FHFA senior managers when OFHEO was consolidated into FHFA at the end of July 2008). OFHEO decided to follow-up on the allegations, but no standard procedures were in place to assure prompt follow-up. As a result, the complaint was neither pursued to completion, nor was it referred to law enforcement authorities for evaluation or possible investigation.

A little more than a year after FHFA's predecessor agency received the email alleging fraud at TBW, federal law enforcement authorities executed a search warrant on TBW's offices in Florida. Warrants were also executed simultaneously at TBW's primary bank, Colonial Bank of Orlando, Florida. Criminal charges followed against multiple individuals, and in April 2011 the former Chairman of TBW was convicted on federal charges of participating in a multi-billion dollar scheme that defrauded Freddie Mac and contributed to the failures of Colonial Bank and TBW. Six other individuals from TBW or Colonial Bank entered pleas of guilty for their roles in the scheme. Although it is impossible to conclude what may have happened if FHFA's predecessor, OFHEO, or FHFA had contacted law enforcement authorities in 2008 – more than one year before the execution of the search warrant – its failure to do so vividly illustrates the importance of expeditiously and thoroughly following-up on complaints of fraud and having procedures to ensure that such follow-up occurs.

Based on the above, FHFA should determine if there are other unresolved complaints alleging fraud to ensure that appropriate action is taken.

4. Follow-up on Consumer Complaints Referred to the Enterprises Was Inconsistent

As previously mentioned, the Agency conducted a limited review of its complaints procedures in late 2010. Although this review did not result in the establishment of a written policy setting

forth FHFA's role and responsibilities with respect to complaints, it led to the adoption of some improvements. For example, FHFA required both Enterprises to submit weekly reports setting forth in narrative form the current status of each complaint that FHFA had previously referred to them for disposition.

Without written policies, however, OCAC staff and the Enterprises continued to lack clear direction regarding the objectives that FHFA intended to achieve in the management and oversight of the weekly reports and the complaints process in general. Each of the Enterprises used different formats for their respective reports and did not categorize them in the same manner. Moreover, OCAC staff did not routinely and promptly reconcile the weekly reports submitted by the Enterprises with the original complaints that FHFA had referred to them in the first place. As a result, OCAC performed no meaningful analysis of the information provided by the Enterprises and did not adequately monitor the Enterprises' handling of complaints. Indeed, OCAC staffers advised that they considered complaints to be resolved or disposed of at the time that they were referred to the Enterprises. Thus, follow-up served no procedural purpose; the complaints were already "closed."

Although FHFA's standard referral letter to the Enterprises requested copies of disposition documentation, in nearly every instance where the Enterprises reported a complaint's status, FHFA took no steps to obtain and review the actual documentation of the transactions that were the subject of the complaint.¹⁷ Of the 470 complaints referred to the Enterprises, FHFA actually obtained all correspondence and disposition documentation in only 2 instances.

5. FHFA Did Not Follow Essential Records Management Policies

FHFA did not follow its records management policy with regard to email complaints it received. FHFA Policy No. 207: *Records Management Policy* (January 9, 2009) requires the following:

FHFA shall create, maintain, and preserve information as records, regardless of physical format, which contain adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Agency to protect the legal and financial rights of the Government and of persons directly affected by the Agency's activities.

Further, FHFA guidance implementing FHFA Policy No. 207 explains that MS Outlook is not an approved recordkeeping system and should not be used as one. Nonetheless, FHFA retained email complaints submitted to the Agency via FHFAInfo@fhfa.gov in MS Outlook. This resulted in two related deficiencies.

First, the Agency did not ensure that the email records were safely stored for efficient retrieval by authorized users. FHFA has not implemented procedures that enable staff to retrieve complaints in an automated fashion. For the Agency to create a universe of email complaints for

¹⁷ When FHFA forwarded a complaint to an Enterprise, it included the following standard language in the referral email "...please copy back all correspondence, supporting documentation, and resolution to FHFAInfo@fhfa.gov so that we may track" the complaints.

FHFA-OIG, OCAC staff had to conduct a labor-intensive manual review of the MS Outlook emails. Furthermore, the Agency has not established how these email records will be managed, transferred, or destroyed at the end of their lifecycle, in accordance with other Agency policy.¹⁸

Second, the Agency did not create records¹⁹ that adequately documented the actions and decisions made regarding incoming email complaints. As previously mentioned, FHFA obtained all correspondence and disposition documentation for email complaints in only two instances. Importantly, FHFA also did not document or retain all actions and decisions made regarding complaints alleging fraud, waste, or abuse. The Agency lacked records documenting its review of these complaints for possible referral to OGC. Furthermore, OGC confirmed that no complaints were forwarded to law enforcement during the audit period. As a result, FHFA was unable to demonstrate full compliance with its records management policy and achieve its intent that the rights of the government and individuals were protected.

6. FHFA Did Not Perform Routine Substantive Analyses to Identify Trends and Risk Areas

FHFA-OIG found no evidence that FHFA staff analyzed the complaints the Agency received, and its systems and lack of procedural guidance inhibited its ability to perform such analysis. Identifying trends and risks is important for a regulator and conservator with limited resources. Reality dictates that a regulator and conservator cannot reasonably hope to have the capacity to cover fully all potential risks; rather, priorities must be established and resources allocated accordingly. Thus, a key focus for a regulator or conservator needs to be the collection of data and the analysis of trends and risks. FHFA missed an opportunity to use complaint information to inform its decision-making.

FHFA did not actually analyze the complaints that it received during the audit period. Further, without information requirements and a consolidated complaint reporting system, FHFA had limited capacity to track particular categories of complaints, such as those involving loan modifications, mortgage disputes, short sales, real estate owned, improper foreclosures, or alleged mortgage fraud. Moreover, because the Agency did not establish uniform record formats or standardize the data elements to be used by FHFA and the Enterprises, the Agency's ability to share information across organizational components and record and track the processing of complaints by subject matter was impaired.

As a result of its unconsolidated systems and deficient procedures, FHFA was unable to perform routine substantive analyses or identify the emergence of trends in the subject matter of complaints received. Such a capacity could have served as an "early warning system" for emerging problems, such as the foreclosure document controversy. As previously discussed,

¹⁸ See <http://www.archives.gov/records-mgmt/ardor/records-schedules.html>.

¹⁹ A record is any document or information which is "...made or received by an agency of the United States government under federal law or in connection with the transaction of public business...by the agency." A record must be relevant to Agency business. Additionally, the Agency should have continually retained complete email records. A complete record would consist of the following, at a minimum: the email itself, the response, any attachments to the email, and the transmission information.

FHFA-OIG's analysis of complaints received by email identified a number of complaints that involved allegations of improper foreclosure activities. The substance of these complaints and actions taken in response to them, if any, were not recorded for analysis. Such analysis could have been used by Agency managers to identify supervisory and regulatory issues at the Enterprises, allocate resources, prepare management reports, and assess the effectiveness of complaint disposition efforts.

7. FHFA Did Not Comply with Safeguards for Personally Identifiable Information Received from Complainants

On August 22, 2010, the Agency issued FHFA Policy No. 301: *Use and Protection of Personally Identifiable Information Policy*, which requires that it:

- Be able to identify personally identifiable information in its possession and take appropriate safeguards to protect it; and
- Instruct users on the proper use, security, and records retention requirements for the systems and records.

In some cases, consumer complaints included personally identifiable information such as complete loan packages with the complainant's name, Social Security number, address, and loan account information. FHFA-OIG found no evidence that FHFA complied with Policy No. 301, which required it to safeguarded personally identifiable information in order to minimize the risk of unauthorized disclosure.

The FHFA staff member who began maintaining the spreadsheet log of telephonic complaints in June 2010 raised questions about the security of personally identifiable information contained in the spreadsheet, and additional instructions were disseminated to remove certain information from the log. Moreover, in October 2010, FHFA noted that suitable protection was still not in place for personally identifiable information received in consumer complaints that were later exchanged with the Enterprises.²⁰ FHFA must ensure that personally identifiable information provided by complainants and forwarded to the Enterprises is properly protected by complying with Policy No. 301 and implementing safeguards commensurate with the potential risk and magnitude of harm that could result from unauthorized disclosure.

8. FHFA Did Not Prioritize Consumer Complaints or Assess the Timeliness of Responses to Complainants

FHFA did not follow a practice of establishing priorities among the complaints received. Complaints such as the 95 emails alleging fraud or improper foreclosure, discussed above, by their very nature, were worthy of special treatment and more intensive management oversight. However, FHFA did not accord them any observable priority to ensure that they were reviewed,

²⁰ FHFA-OIG did not test FHFA's systems controls related to the protection of personally identifiable information for the three systems used to capture complaints.

evaluated, and properly referred in a timely manner. Importantly, FHFA's Fiscal Year 2010 Annual Performance Plan stated that the Agency will cooperate, collaborate, and communicate with other government agencies, the Congress, and the public. Timely and effective resolution of consumer complaints is key to achieving this objective. In addition, there were no observable practices by which OCAC identified any complaints as requiring resolution in advance of time-sensitive events like foreclosure or other legal proceedings.

Although it afforded no priority to complaints, FHFA recognized the importance of properly handling them. FHFA's Fiscal Year 2010 Performance and Accountability Report stated that the Agency was committed to providing accurate information to industry stakeholders and the public in a timely way. The Report also stated that FHFA continued to respond promptly to inquiries from the public, including complaints, during Fiscal Year 2010. However, no specific performance goal concerning complaints was established for 2010. For those inquiries that did not come within the Agency's purview, the Report stated that FHFA staff made every effort to direct the inquirer to the appropriate source. FHFA's Fiscal Year 2008 and 2009 Reports similarly emphasized the importance of timely responses to public inquiries. Nonetheless, FHFA's procedures were inconsistent with its stated intentions.²¹

FHFA-OIG analyzed the 470 complaints referred to the Enterprises. On average, FHFA took approximately 16 days to refer such complaints. However, a significant number of complaints took much longer to be referred: 86 complaints, or 18% of the 470, took more than 30 days for FHFA to forward the complaint to the Enterprises. Moreover, after the complaints were referred, FHFA did not routinely monitor the substance or timeliness of the responses to complainants by the Enterprises. Finally, when the Enterprises provided FHFA with a copy of their response to a complainant, the Agency accepted the Enterprises' responses at face value and performed no independent evaluation of the sufficiency or timeliness of the responses. Indeed, FHFA retrieved all disposition records and correspondence from the Enterprises in only 2 of 470 cases reviewed. As a result, FHFA lacks assurance regarding the responsiveness of the Agency and Enterprises to complainants.

Conclusion

FHFA's Performance Accountability Reports demonstrate that it recognizes the importance of responding appropriately to complaints from members of the public, including consumer complaints pertaining to the Enterprises. Further, OCO recently conducted a review of complaint procedures and encouraged the Agency to assume a more active role in the monitoring of complaints. Notwithstanding this, FHFA historically relegated processing complaints to a public or external relations function rather than treating it as a core supervisory and regulatory responsibility; thus, it provided minimal emphasis and resources to the task. FHFA needs to define clearly its complaint-related objectives, its role and responsibilities for meeting those

²¹ FHFA considered a complaint "closed" or "responded to" upon referral to either of the Enterprises, regardless of whether a substantive disposition had been achieved. Because approximately three quarters of FHFA's complaints were referred to the Enterprises, this resulted in the appearance that complaints were resolved more quickly than was the case.

objectives, and its means for gauging its performance in meeting its objectives. This is particularly important given FHFA's responsibilities as conservator for the Enterprises. FHFA would also benefit from establishing better oversight of the Enterprises' complaint procedures, including conducting periodic substantive reviews of statistically sound random samples of complaints processed and following-up on all complaints to help ensure appropriate disposition. FHFA should also be cognizant of the need to assign appropriate resources to the complaints process.

Recommendations

FHFA-OIG recommends that the Senior Associate Director for Congressional Affairs and Communications, in coordination with other appropriate FHFA officials:

- 1A. Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:
 - Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
 - Require the retention of supporting documentation for all processing and disposition actions;
 - Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
 - Ensure timely and accurate responses to complaints;
 - Facilitate the analysis of trends in consumer complaints received and use the resulting analyses to mitigate areas of risk to the Agency;
 - Safeguard personally identifiable information; and
 - Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.
- 1B. Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.
- 1C. Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this performance audit was to assess how FHFA processed consumer complaints. Specifically, FHFA-OIG assessed the Agency's procedures and controls for receiving, processing, and resolving complaints from the public prior to the commencement of FHFA-OIG's operations.²² When designing the scope of this audit, FHFA-OIG's plan was to include all complaints received by FHFA from its inception on July 30, 2008, through October 31, 2010, a period of 27 months. However, that plan could not be carried out because FHFA was unable to provide a comprehensive analysis and adequate records of complaints that it had received.

Field work for this audit was performed from December 2010 through April 2011. FHFA-OIG conducted this audit at FHFA's three offices located in Washington, D.C., and reviewed available information on the processing of complaints. FHFA-OIG also interviewed FHFA personnel. To achieve its objective, FHFA-OIG relied on computer-processed and hard copy data from FHFA. This included data contained in the TRAKKER system, plus a spreadsheet and the Agency's MS Outlook email account. FHFA used the MS Outlook account to create an MS Access database of the emails that it considered to be complaints, and FHFA-OIG relied on this database. FHFA-OIG assessed the validity of the computerized data and found it to be generally accurate, but could not conclude on its completeness.

Regarding written complaints, FHFA was unable to identify for FHFA-OIG all written complaints received because the TRAKKER system did not segregate complaints, and FHFA would have had to perform a lengthy manual inspection to isolate all complaints. Alternatively, FHFA could not provide descriptive records sufficient to establish the number of complaints received and logged into the TRAKKER system, their subject matter, the means employed by FHFA to resolve them, or other relevant information. As a result, FHFA-OIG was unable to analyze written complaints.

With respect to telephone complaints, FHFA-OIG was provided a phone log with 283 entries that was created by an OCAC employee on her own initiative during the 5 month time period beginning in June 2010. The information that was recorded, however, primarily consisted of contact information and the nature of each call. This information was not sufficient to determine if a complaint was, in fact, received, or how FHFA resolved it. As a result, FHFA-OIG was unable to analyze the telephone complaints. These matters – concerning written and telephone complaints – constituted a scope limitation for this audit.

FHFA-OIG assessed the internal controls related to its audit objective. Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations;

²² The audit was not intended or designed to assess how the Enterprises processed complaints.

- Reliability of financial report; and
- 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. Based on the work completed on this performance audit, FHFA-OIG considers its finding on FHFA's oversight of the receipt, processing, and disposition of consumer complaints to be a significant deficiency in internal control within the context of the audit objective.

FHFA-OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for FHFA-OIG's findings and conclusions based on the audit objective. FHFA-OIG believes that the evidence obtained provides a reasonable basis for the finding and conclusions included herein, based on the audit objective.

APPENDIX A:

FHFA'S COMMENTS TO FHFA-OIG'S DRAFT REPORT



Federal Housing Finance Agency

MEMORANDUM

TO: Russell Rau, Deputy Inspector General for Audit, Office of the Inspector General (OIG)

FROM: Meg Burns, Senior Associate Director, Office of Congressional Affairs and Communications (OCAC) *Meg Burns*

SUBJECT: Audit Report: Audit of Federal Housing Finance Agency's Consumer Complaint Process (AUD-2011-001)

DATE: June 6, 2011

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to recommendations set forth in the OIG audit of FHFA's consumer complaints process, performed from December 2010 to April 2011.

This memorandum: (1) expresses management's agreement with the recommendations; and (2) identifies the actions that FHFA will take to address the recommendations.

Background

As a result of widespread distress in the housing market in 2008, FHFA began to receive an elevated level of public inquiries and complaints. Prior to that time, the Office of Federal Housing Enterprise Oversight, one of FHFA's predecessor agencies, received almost no correspondence or communications from individual consumers. The volume of calls and inquiries further increased upon deployment of the Administration's Home Affordable Modification Program (HAMP) program in mid-2009. Since that time, consumer inquiries, concerns, and complaints have been directed not only to FHFA but also to the Enterprises, the White House, federal and state banking regulators, and a number of other federal agencies -- often as multiple addressees on a single piece of correspondence. Unlike many of the other agencies that were receiving an increased number of public inquiries, FHFA had no dedicated staff nor procedures in place to handle the new responsibility. Further, the volume of calls and written complaints that FHFA received and continues to receive is substantially lower than that of other agencies that have a more consumer-facing orientation. That said, the informal process that was established was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the agency. FHFA's primary duty in handling the communications has been to refer consumers to other parties that can provide some form of assistance or relief.

To gain clarity about the relative demand on agency resources and whether the existing infrastructure needed upgrading, FHFA's Acting Director in 2010 requested that FHFA's Office of Internal Audit (OIA) conduct a survey of the agency's external communications infrastructure. OIA concluded that existing practices were insufficient to meet the greatly increased demand, and FHFA engaged the Concentrance Consulting Group (Concentrance) to assist the agency in designing a set of centralized and efficient policies and procedures, as well as automated tools to support FHFA's communications with external parties.

The Concentrance final report was received May 5, 2011. The objectives and options presented in that report are relevant to the OIG Audit report's three recommendations, and will help FHFA build on best practices identified at other agencies that also handle consumer inquiries and complaints.

We request that the OIG report include the date of the Concentrance final report, to provide balance and context to the statement on Page 8, paragraph 2, sentence 2 "...nor has it implemented any of the contractor's recommendations." Without the actual timeframe, it appears that FHFA has not considered the contractor's recommendations in a timely manner.

FHFA's response to the OIG recommendations follows:

Recommendation 1A: Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:

1. Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
2. Require the retention of supporting documentation for all processing and disposition actions;
3. Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
4. Ensure timely and accurate responses to complaints;
5. Facilitate the analysis of trends in consumer complaints received, and use the resulting analyses to mitigate areas of risk to the Agency;
6. Safeguard personally identifiable information; and
7. Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.

Management Response:

FHFA agrees with the recommendation. The agency will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries. This work will be completed by December 31, 2011.

The written policy will clarify that FHFA will continue to accept consumer inquiries, promptly redirecting cases to an appropriate entity, while making clear that the agency has limited mandate and ability to impact the outcome of the vast majority of individual consumer issues. In the event that any trends can be discerned from the limited pool of inquiries that FHFA receives, the information received may be shared with the agency's examination staff.

Recommendation 1B: Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.

Management Response:

FHFA agrees with the recommendation. FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures described above. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function. The assessment will be completed by December 31, 2011.

Recommendation 1C: Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

Management Response:

FHFA agrees with this recommendation. FHFA Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received. The example cited in the OIG report, to demonstrate that a consumer complaint could help the agency identify instances of significant fraud or misrepresentation, was not representative of the types of public inquiries that FHFA has received to date, nor was it within the scope of the audit, in terms of time frame or type of communication. FHFA requests that the two paragraphs that reference a reporter contacting the agency in June 2008, regarding an employee at Taylor, Bean, and Whitaker (TBW) and the ultimate resolution of TBW, be removed from the report.

APPENDIX B:

FHFA-OIG'S RESPONSE TO FHFA'S COMMENTS

On June 6, 2011, FHFA provided comments to a draft of this report agreeing with all the recommendations and identifying FHFA actions to address each recommendation. FHFA-OIG considers the actions sufficient to resolve the recommendations, which will remain open until FHFA-OIG determines that agreed upon corrective actions are completed and responsive to the recommendations. See Appendix C of this report for a summary of management's comments on the recommendations.

FHFA commented that the established, informal complaints process was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the Agency. FHFA-OIG considers the handling of consumer complaints to serve an important role in fulfilling the regulatory responsibilities of the Agency that should be integrated with its safety and soundness oversight of the Enterprises. Additionally, FHFA-OIG reemphasizes the importance of a consolidated management reporting system for all consumer complaints received by the Agency and the Enterprises as discussed in this audit report.

As the Agency requested, FHFA-OIG included the receipt date of May 5, 2011, for FHFA's contractor's final report on page 8 of this report.

FHFA noted that it has a limited mandate regarding consumer complaints. However, pursuant to 12 U.S.C. § 4513(a)(1)(B), FHFA has the authority to ensure that the Enterprises comply with FHFA's rules, regulations, guidelines, and orders, and that they operate in a fashion consistent with the public interest. FHFA – in its discretion – decided to implement this authority to handle consumer complaints. This audit assessed the quality of FHFA's implementation.

FHFA requested that FHFA-OIG remove from this report the discussion of TBW's fraud on Freddie Mac, claiming that it was outside the scope of this audit. FHFA-OIG disagrees. Although the initial complaint was submitted to FHFA's predecessor organization, OFHEO, one month before the audit period (and one month before OFHEO was consolidated into FHFA), FHFA was in possession of the complaint and aware of it during the audit period. Further, the fraud continued well into the audit period. FHFA's failure to act on the complaint serves as a stark example of the consequences of failing to appropriately address complaints of fraud, waste, or abuse.

Subsequent to receiving FHFA's comments to the draft report, the Agency provided FHFA-OIG with an expected completion date of December 31, 2011, for Recommendation 1C. Thus, this date was included in the summary of management's comments on the recommendations (see Appendix C).

APPENDIX C:

SUMMARY OF MANAGEMENT'S COMMENTS ON THE RECOMMENDATIONS

This table presents the management response to the recommendations in FHFA-OIG's report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1A	FHFA will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries.	12/31/2011	\$0	Yes	Open
1B	FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures cited in Recommendation 1A. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function.	12/31/2011	\$0	Yes	Open
1C	FHFA's Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received.	12/31/2011	\$0	Yes	Open

^a Resolved means – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation; or (3) Management agrees to the OIG monetary benefits, a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

OBTAIN COPIES OF FHFA-OIG REPORTS

Call the Office of Inspector General at: (202) 408-2544

Fax your request to: (202) 445-2075

Visit the OIG web site at: www.fhfaoig.gov

OIG HOTLINE

To report alleged fraud, waste, abuse, or mismanagement or any other kind of criminal or noncriminal misconduct relative to FHFA's programs or operations:

- Call our Hotline at: 1-800-793-7724
- Fax the complaint directly to us at: (202) 445-2075
- Email us at: oighotline@fhfa.gov or
- Write to us at:

FHFA Office of Inspector General
Attention: Office of Investigations – Hotline
1625 Eye Street, NW
Washington, D.C. 20006-4001

Wolfe, William

From: Wolfe, William
Sent: Thursday, June 09, 2011 5:48 PM
To: Major, John
Cc: Rau, Russell; Roberson, Laura
Subject: Re: Expected Completion Date - Recommendation 1C (Complaint Process Audit 2011-001)

Thanks!

From: Major, John
Sent: Thursday, June 09, 2011 05:46 PM
To: Wolfe, William
Cc: Pollard, Alfred; Crandlemire, Bruce; Burns, Meg
Subject: Expected Completion Date - Recommendation 1C (Complaint Process Audit 2011-001)

Heath,

I am following up with you in response to your voicemail from this morning.

I checked and the expected completion date for Recommendation IC should be 12/31/11.

John Major
Federal Housing Finance Agency
Office of Budget and Financial Management
Internal Control and Audit Follow-up Manager

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(office)
(mobile)

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OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

DATE: May 13, 2011

MEMORANDUM TO: Meg Burns, Senior Associate Director for Congressional Affairs
and Communications

(b)(6)

FROM: Russell A. Rau
Deputy Inspector General for Audits

SUBJECT: (b)(5)

(b)(5)

We intend to make public release of the report.

If you have questions concerning the report or would like to schedule an exit conference, please contact Heath Wolfe, Audit Director, at (202) 408-2588. We appreciate the courtesies extended to the OIG staff.

Attachment

cc: Edward Demarco, Acting Director
Stephen Cross, Acting Chief Operating Officer
Alfred Pollard, General Counsel
Bruce Crandlemire, Senior Advisor for IG Operations

John Major, Internal Controls and Audit Follow-Up Manager
Jeffrey Spohn, Senior Associate Director for Conservatorship Operations
Chris Dickerson, Deputy Director for Enterprise Regulation
Mary Ellen Taylor, Associate Director for Agency Communications

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of the Freedom of Information and Privacy Act

Wolfe, William

From: Wolfe, William
Sent: Friday, June 10, 2011 7:16 AM
To: Roberson, Laura (Laura.Roberson@fhfa.gov)
Subject: FW: Draft Audit Report Entitled, FHFA's Consumer Complaints Process
Attachments: FHFA-OIG Draft Audit Report re FHFA's Consumer Complaints Processing-Issued to FHFA on 5-13-11.pdf

Here's the initial draft report as issued to FHFA.

From: Wolfe, William
Sent: Friday, May 13, 2011 3:13 PM
To: Burns, Meg
Cc: DeMarco, Edward; Cross, Stephen; Pollard, Alfred; Crandlemire, Bruce; Major, John; Spohn, Jeffrey; Dickerson, Chris; Taylor, Mary Ellen; Rau, Russell; Linick, Steve; Saddler, Bryan; DiSanto, Emilia; Parker, Richard
Subject: Draft Audit Report Entitled, FHFA's Consumer Complaints Process

Attached is a draft report recently issued by the Federal Housing Finance Agency Office of Inspector General. The draft report contains three recommendations and we request management comments on the recommendations by May 27, 2011. The draft report should not be distributed outside of the Agency, including to contractors, without the written approval of the Office of Inspector General. We would like to schedule an exit conference with you next week to discuss the draft report. If you have any questions, please contact me. Thank you.

Heath Wolfe, Director of Housing Mission Management
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 445-2075
Cell #: (b)(6)

(b)(5)

Wolfe, William

From: Rau, Russell
Sent: Monday, June 13, 2011 4:53 PM
To: Wolfe, William
Cc: Roberson, Laura
Subject: FW: Revised Draft Audit Report
Attachments: Revised Draft Audit Report on FHFA Processing of Consumer Complaints 052411.pdf

Per your request.

Russell A. Rau
Deputy Inspector General for Audits
Office of Inspector General
Federal Housing Finance Agency
1625 Eye Street, NW
Washington, DC 20006-4001
Voice: 202-445-2167

From: Rau, Russell
Sent: Tuesday, May 24, 2011 12:06 PM
To: Burns, Meg
Cc: Pollard, Alfred; Crandlemire, Bruce; Kinsey, Mark; Taylor, Mary Ellen; Major, John; Wolfe, William; Roberson, Laura; Saddler, Bryan
Subject: Revised Draft Audit Report

(b)(5)

If you have questions concerning the revised draft report, please contact Heath Wolfe, Audit Director, at (202) 408-2588. We appreciate the courtesies extended to the OIG staff.

Russell A. Rau
Deputy Inspector General for Audits
Office of Inspector General
Federal Housing Finance Agency
1625 Eye Street, NW

Washington, DC 20006-4001

Voice: 202-445-2167

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FHFA-OIG'S RESPONSE TO FHFA'S COMMENTS

On June 6, 2011, FHFA provided comments to a draft of this report agreeing with all the recommendations and identifying FHFA actions to address each recommendation. FHFA-OIG considers the actions sufficient to resolve the recommendations, which will remain open until FHFA-OIG determines agreed upon corrective actions are completed and responsive to the recommendations. See Appendix C of this report for a summary of management's comments on the recommendations.

FHFA commented that the established, informal complaints process was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the Agency. FHFA-OIG considers the handling of consumer complaints to serve an important role in fulfilling the regulatory responsibilities of the Agency and should be integrated with its safety and soundness oversight of the Enterprises. Additionally, FHFA-OIG reemphasizes the importance of a consolidated management reporting system for all consumer complaints received by the Agency and the Enterprises as discussed in this audit report.

As the Agency requested, FHFA-OIG included the receipt date of May 5, 2011, for FHFA's contractor's final report on page 8 of this report.

FHFA noted that it has a limited mandate regarding consumer complaints. However, pursuant to 12 U.S.C. § 4513(a)(1)(B), FHFA has the authority to ensure that the Enterprises comply with FHFA's rules, regulations, guidelines, and orders, and that they operate in a fashion consistent with the public interest. FHFA – in its discretion – decided to implement this authority to handle consumer complaints. This audit assessed the quality of FHFA's implementation.

FHFA requested that FHFA-OIG remove from this report the discussion of TBW's fraud on Freddie Mac, claiming that it was outside the scope of this audit. FHFA-OIG disagrees. Although the initial complaint was submitted to FHFA's predecessor organization, OFHEO, one month before the audit period (and FHFA's formation out of OFHEO), FHFA was in possession of the complaint and aware of it during the audit period. Importantly, the fraud continued well into the audit period. FHFA's failure to act on the complaint serves as a stark example of the consequences of failing to appropriately address complaints of fraud, waste, or abuse.

FHFA subsequently provided FHFA-OIG with an expected completion date of December 31m 2011, for Recommendation 1C.

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SUMMARY OF MANAGEMENT’S COMMENTS ON THE RECOMMENDATIONS

This table presents the management response on the recommendations in FHFA-OIG’s report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1A	FHFA will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries.	12/31/2011	\$0	Yes	Open
1B	FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures cited in Recommendation 1A. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function.	12/31/2011	\$0	Yes	Open
1C	FHFA’s Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received.	12/31/2011	\$0	Yes	Open

^a Resolved – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

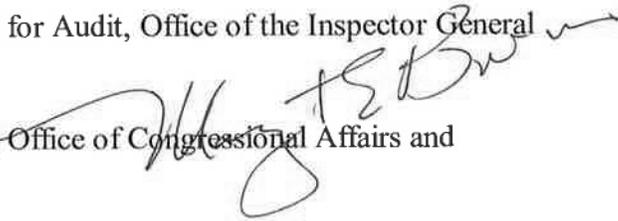
^b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

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MEMORANDUM

TO: Russell Rau, Deputy Inspector General for Audit, Office of the Inspector General
(OIG)

FROM: Meg Burns, Senior Associate Director, Office of Congressional Affairs and
Communications (OCAC) 

SUBJECT: Audit Report: Audit of Federal Housing Finance Agency's Consumer Complaint
Process (AUD-2011-001)

DATE: June 6, 2011

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to recommendations set forth in the OIG audit of FHFA's consumer complaints process, performed from December 2010 to April 2011.

This memorandum: (1) expresses management's agreement with the recommendations; and (2) identifies the actions that FHFA will take to address the recommendations.

Background

As a result of widespread distress in the housing market in 2008, FHFA began to receive an elevated level of public inquiries and complaints. Prior to that time, the Office of Federal Housing Enterprise Oversight, one of FHFA's predecessor agencies, received almost no correspondence or communications from individual consumers. The volume of calls and inquiries further increased upon deployment of the Administration's Home Affordable Modification Program (HAMP) program in mid-2009. Since that time, consumer inquiries, concerns, and complaints have been directed not only to FHFA but also to the Enterprises, the White House, federal and state banking regulators, and a number of other federal agencies -- often as multiple addressees on a single piece of correspondence. Unlike many of the other agencies that were receiving an increased number of public inquiries, FHFA had no dedicated staff nor procedures in place to handle the new responsibility. Further, the volume of calls and written complaints that FHFA received and continues to receive is substantially lower than that of other agencies that have a more consumer-facing orientation. That said, the informal process that was established was expected to be temporary in nature and was not integral to the core regulatory responsibilities of the agency. FHFA's primary duty in handling the communications has been to refer consumers to other parties that can provide some form of assistance or relief.

To gain clarity about the relative demand on agency resources and whether the existing infrastructure needed upgrading, FHFA's Acting Director in 2010 requested that FHFA's Office of Internal Audit (OIA) conduct a survey of the agency's external communications infrastructure. OIA concluded that existing practices were insufficient to meet the greatly increased demand, and FHFA engaged the Concentrance Consulting Group (Concentrance) to assist the agency in designing a set of centralized and efficient policies and procedures, as well as automated tools to support FHFA's communications with external parties.

The Concentrance final report was received May 5, 2011. The objectives and options presented in that report are relevant to the OIG Audit report's three recommendations, and will help FHFA build on best practices identified at other agencies that also handle consumer inquiries and complaints.

We request that the OIG report include the date of the Concentrance final report, to provide balance and context to the statement on Page 8, paragraph 2, sentence 2 "...nor has it implemented any of the contractor's recommendations." Without the actual timeframe, it appears that FHFA has not considered the contractor's recommendations in a timely manner.

FHFA's response to the OIG recommendations follows:

Recommendation 1A: Design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints that:

1. Define FHFA's and the Enterprises' roles and responsibilities regarding consumer complaints;
2. Require the retention of supporting documentation for all processing and disposition actions;
3. Require a consolidated management reporting system, including standard record formats and data elements, and procedures for categorizing and prioritizing consumer complaints;
4. Ensure timely and accurate responses to complaints;
5. Facilitate the analysis of trends in consumer complaints received, and use the resulting analyses to mitigate areas of risk to the Agency;
6. Safeguard personally identifiable information; and
7. Ensure coordination with FHFA-OIG regarding allegations involving fraud, waste, or abuse.

Management Response:

FHFA agrees with the recommendation. The agency will develop and implement written policies, procedures, and controls to address the receipt, processing, and disposition of consumer inquiries. This work will be completed by December 31, 2011.

The written policy will clarify that FHFA will continue to accept consumer inquiries, promptly redirecting cases to an appropriate entity, while making clear that the agency has limited mandate and ability to impact the outcome of the vast majority of individual consumer issues. In the event that any trends can be discerned from the limited pool of inquiries that FHFA receives, the information received may be shared with the agency's examination staff.

Recommendation 1B: Assess the sufficiency of allocated resources, inclusive of staffing, in light of the additional controls implemented to strengthen the consumer complaints process.

Management Response:

FHFA agrees with the recommendation. FHFA will assess both the adequacy and organizational placement of staff resources designed to implement the policies and procedures described above. After the assessment is completed, FHFA will move forward to locate and appropriately staff the consumer complaint function. The assessment will be completed by December 31, 2011.

Recommendation 1C: Determine if there are unresolved consumer complaints alleging fraud to ensure that appropriate action is taken promptly.

Management Response:

FHFA agrees with this recommendation. FHFA Office of General Counsel will review identified consumer complaints alleging fraud to determine if appropriate action was taken or needs to be taken regarding the complaint received. The example cited in the OIG report, to demonstrate that a consumer complaint could help the agency identify instances of significant fraud or misrepresentation, was not representative of the types of public inquiries that FHFA has received to date, nor was it within the scope of the audit, in terms of time frame or type of communication. FHFA requests that the two paragraphs that reference a reporter contacting the agency in June 2008, regarding an employee at Taylor, Bean, and Whitaker (TBW) and the ultimate resolution of TBW, be removed from the report.

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of the Freedom of Information and Privacy Act

Page 200 of 318

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of the Freedom of Information and Privacy Act

Page 215 of 318

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of the Freedom of Information and Privacy Act



**OFFICE OF INSPECTOR GENERAL
FEDERAL HOUSING FINANCE AGENCY**

1625 EYE STREET NW WASHINGTON DC 20006 (202) 408-2544 FACSIMILE: (202) 408-2972

MEMORANDUM
November 11, 2010

For: Edward J. DeMarco, Director (Acting), Federal Housing Finance Agency

From: Steve A. Linick, Inspector General

A handwritten signature in black ink, appearing to be 'SL', is written over the printed name 'Steve A. Linick'.

(b)(5)

Mr. Beard may be reached at (202) 408-2930 or michael.beard@fhfa.gov.

Thank you in advance for your cooperation in this matter. Please feel to contact me at (202) 408-2849 or steve.linick@fhfa.gov, if you have any questions or require further assistance on this or any other FHFA-OIG matter.

* In this context, "complaints" shall include all means of conveying information, written, oral, or otherwise. If you or your staff has any questions concerning the scope of "complaints", please contact my Chief Counsel, Bryan Saddler, who may be reached at (202) 408-2577 or bryan.saddler@fhfa.gov.

**Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC**

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

Audit Work Plan

(b)(5)

(b)(5)

Standards:

The audit will be conducted in accordance with generally accepted government auditing standards (GAGAS) established by the Comptroller General of the United States for audits of Federal organizations, programs, functions, and activities. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained will provide a reasonable basis for any findings and conclusions based on our audit objective.

**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

Audit Work Plan

(b)(5)

Audit Procedures:

GAGAS requires auditors to adequately plan and document the planning of work necessary to address the audit objectives.

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

Audit Work Plan

(b)(5)

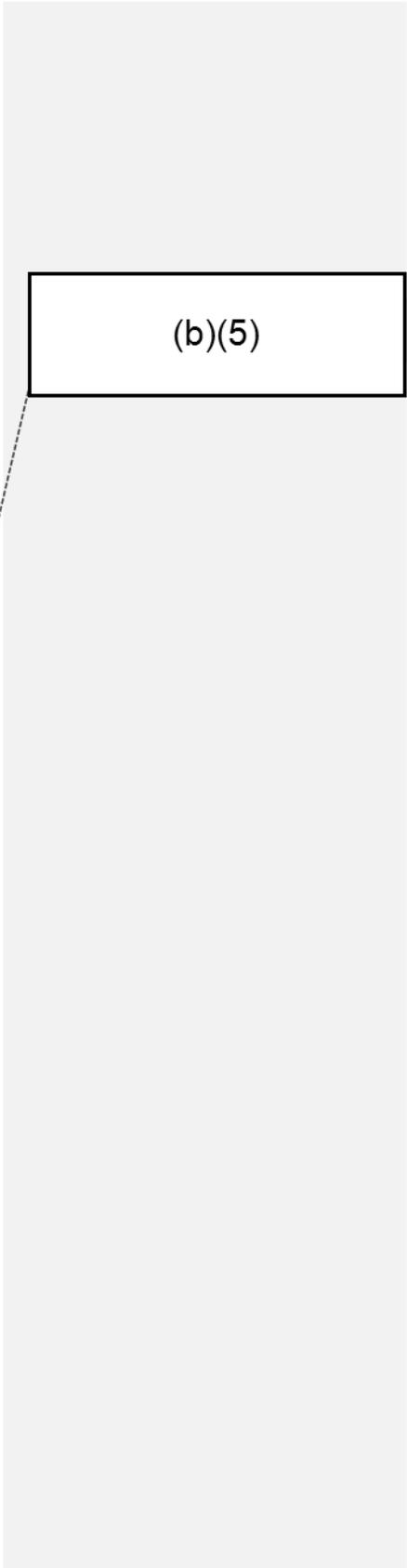
**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

Audit Work Plan

(b)(5)

(b)(5)

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OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

FHFA-OIG's Independence Statement

STATEMENT ON AUDITOR INDEPENDENCE

OIG auditors are responsible for disclosing any personal impairment that could affect their independence, in fact or appearance, for each audit assignment. Auditors must be familiar with the GAGAS definition of independence and provide the following representation in TeamMate as a workpaper:

"I, _____, certify that I understand the independence standard as defined in GAGAS and have no personal impairments to independence, either in fact or in appearance, that could affect my work on OIG Audit Assignment # 11-02-OGC OCAC. I further understand that should this status change and a personal impairment arises during the course of this assignment, I will notify my supervisor immediately."

D. Michael Beard

Digitally signed by D. Michael Beard
DN: cn=D. Michael Beard, o=FHFA Office of
Inspector General, ou,
email=michael.beard@fhfa.gov, c=US
Date: 2010.12.29 09:28:48 -05'00'

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC**

Correlation to FHFA-OIG's Fiscal Year 2011 Annual Audit Plan

(b)(5)

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC**

Correlation to FHFA-OIG's Strategic Plan

(b)(5)



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

FHFA-OIG's Independence Statement

STATEMENT ON AUDITOR INDEPENDENCE

OIG auditors are responsible for disclosing any personal impairment that could affect their independence, in fact or appearance, for each audit assignment. Auditors must be familiar with the GAGAS definition of independence and provide the following representation in TeamMate as a workpaper:

"I, Evan Donahey, certify that I understand the independence standard as defined in GAGAS and have no personal impairments to independence, either in fact or in appearance, that could affect my work on OIG Audit Assignment # 11-02-OGC_OCAC. I further understand that should this status change and a personal impairment arises during the course of this assignment, I will notify my supervisor immediately."

(b)(6)

2/28/2011

Purpose: To determine whether Evan Donahey, Student Intern, certified as to whether he had any personal impairments to independence, either in fact or appearance, that could affect his work on FHFA-OIG's audit assignment # 11-02-OGC_OCAC. Source: Evan Donahey, Student Intern FHFA-OIG. Conclusion: Evan Donahey certified that he did not have any personal impairments to independence, either in fact or appearance, that could effect his work on FHFA-OIG's audit assignment #11-02-OGC_OCAC.

Wolfe, William

From: Kelley, Edward
Sent: Tuesday, December 28, 2010 5:47 PM
To: Wolfe, William; Jacobsen, Jay
Cc: Beard, Michael
Subject: RE: Prior Audits of FHFA's Receipt, Processing, and Disposition of Internal Complaints

Heath,

(b)(5)

Edward Kelley
Former Associate Director for Internal Audit
Federal Housing Finance Board

From: Wolfe, William
Sent: Tuesday, December 28, 2010 4:54 PM
To: Kelley, Edward; Jacobsen, Jay
Cc: Beard, Michael
Subject: Prior Audits of FHFA's Receipt, Processing, and Disposition of Internal Complaints

Mr. Kelly and Jay:

As discussed with Mr. Kelly, FHFA's Office of Internal Audit

(b)(5)

Please confirm and thanks!

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

(b)(5)

Wolfe, William

From: Wolfe, William
Sent: Wednesday, January 12, 2011 10:51 AM
To: Major, John; Wagner-Smith, Wendy
Cc: Beard, Michael (Michael.Beard@fhfa.gov)
Subject: Status re Requested Documentation/Information for FHFA's Receipt, Processing, and Disposition of Internal Complaints

John/Wendy:

Hope this message finds you both well.

(b)(5)

Please advise when you will anticipate providing and thanks!

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

(b)(5)

Tracking:

Recipient

Major, John

Wagner-Smith, Wendy

Beard, Michael (Michael.Beard@fhfa.gov)

Read

Read: 1/12/2011 10:53 AM

Wolfe, William

From: Wolfe, William
Sent: Wednesday, January 12, 2011 10:41 AM
To: Lakroune, Amy
Cc: Major, John; Beard, Michael (Michael.Beard@fhfa.gov)
Subject: Confirmation re FHFA's Previously E-Mail Communication to All Staff re Receipt, Processing, and Disposition of Internal Complaints

Ms. Lakroune:

It was nice talking with you yesterday and this e-mail confirms our conversation

(b)(5)

Thanks!

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

(b)(5)

Tracking:

Recipient

Lakroune, Amy

Major, John

Beard, Michael (Michael.Beard@fhfa.gov)

Read

Read: 1/12/2011 10:52 AM

(b)(5)

(b)(5)



Entrance Conference
Internal Audit of FHFA's Receipt, Processing, and Disposition of
Internal Complaints

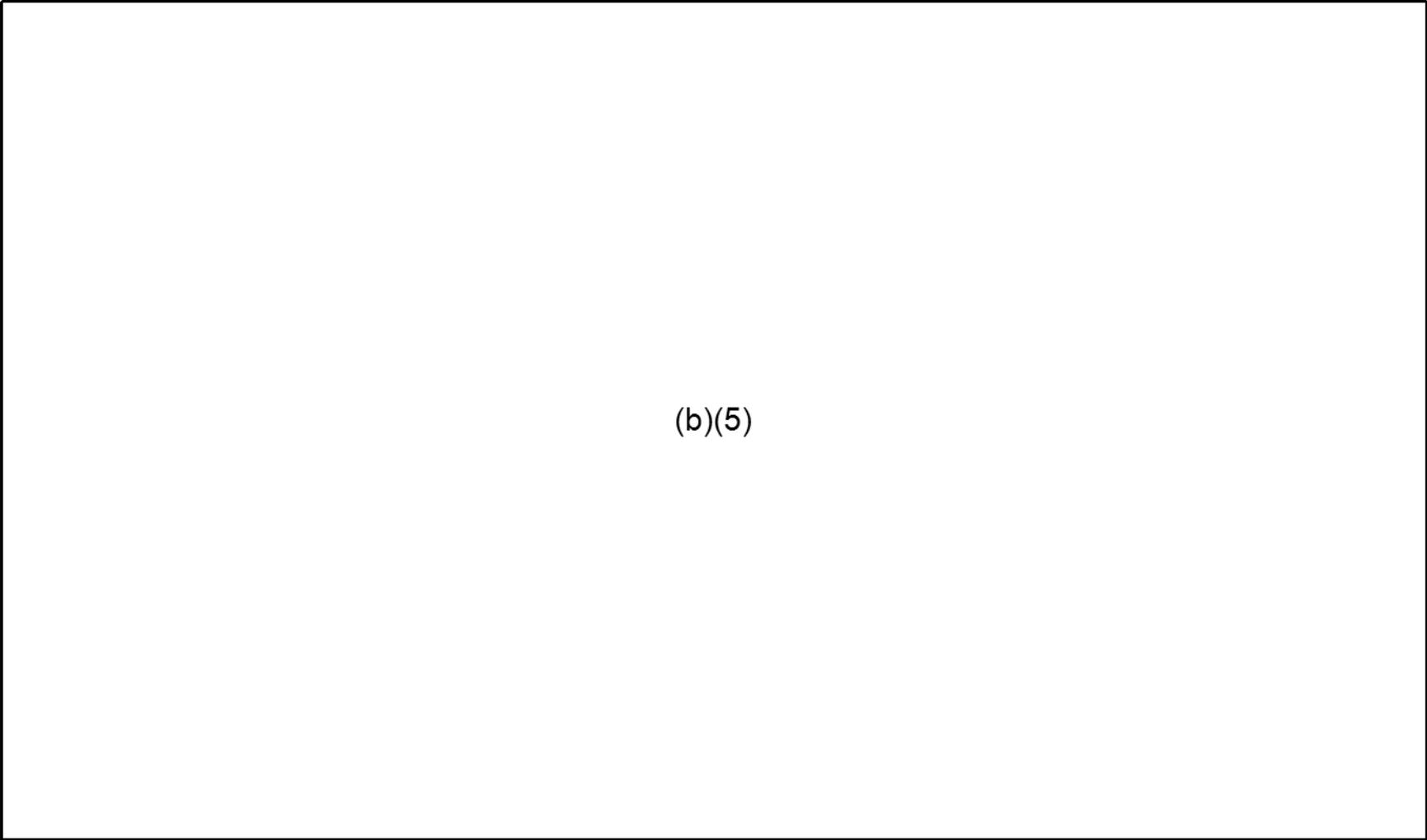
December 16, 2010

This document and its contents are for discussion purposes only and should not be released under any circumstances without the permission of FHFA's Office of Inspector General.

FHFA-OIG Audit Team

- Michael Beard, Acting Deputy Inspector General for Audits (Phone # 202-408-2930); and
- Heath Wolfe, Auditor-in-Charge (Phone # 202-408-2588).

(b)(5)



(b)(5)

Audit Objective

-

(b)(5)

Scope

(b)(5)

Audit Timeframe

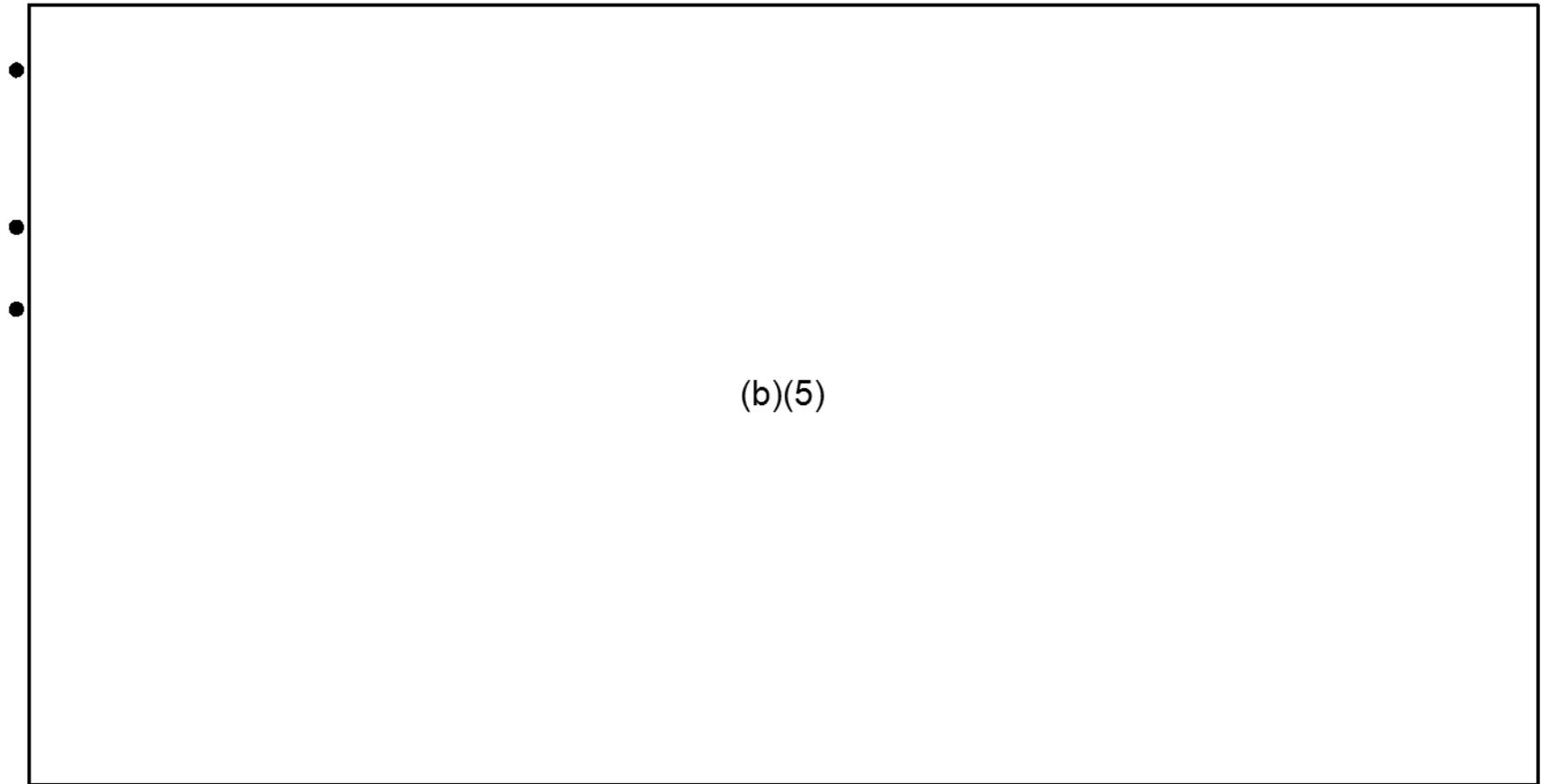
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(b)(5)



(b)(2),(b)(5)

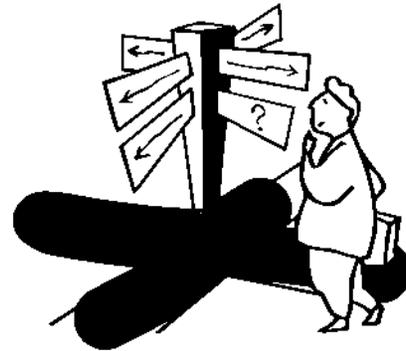
OIG Reporting Procedures



Freedom of Information Act (FOIA)

(b)(5)

Questions?





OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

CONFERENCE RECORD ROSTER OF ATTENDEES

<u>NAME AND TITLE</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
(b)(6)	FHFA	(b)(6)
	and FHFA	
	FHFA	
	FHFA	
	FHFA	
	FHFA	
	FHFA - OIG	
	FHFA - OIG	
	OIG	
	FHFA	
FHFA - OIG		

Purpose: To document the conference record roster of attendees for FHFA-OIG's audit of FHFA's receipt, processing, and disposition of internal complaints. Source: Individual attendees and see workpaper PA4.a. Conclusion: Attendees included both FHFA and FHFA-OIG staff

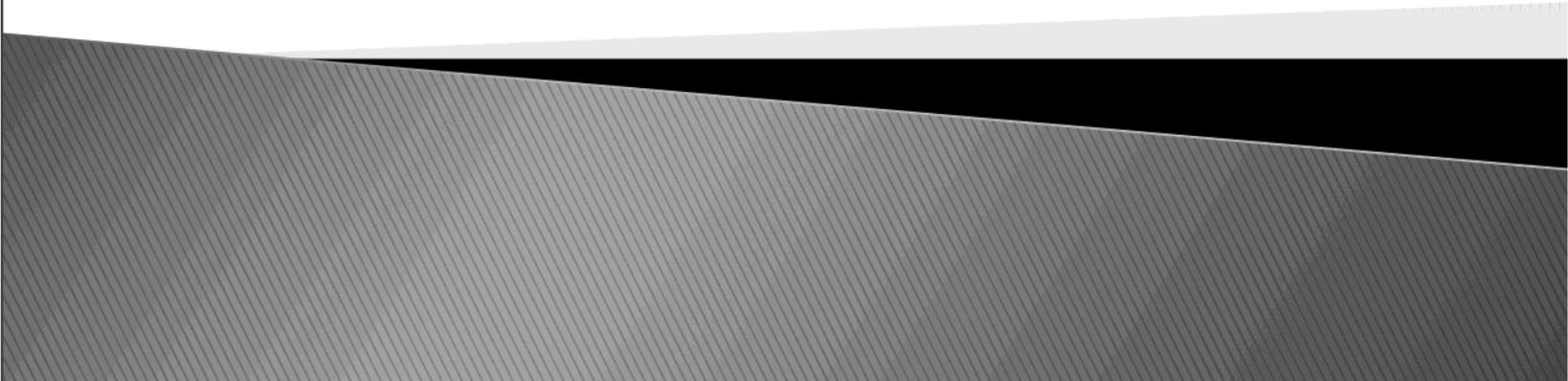
(b)(5)

(b)(5)

Exit Conference

Audit of the Federal Housing Finance Agency's Consumer Complaints Process

May 20, 2011



(b)(5)

(b)(5)

(b)(5)

(b)(5)

(b)(5)

Questions?



(b)(5)



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

CONFERENCE RECORD ROSTER OF ATTENDEES

<u>NAME AND TITLE</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
(b)(6)	Agcy relations OCAC	(b)(6)
	Public Affairs Communications OCAC	
	OBFM	
	OCC	
	OBFM	
	OIG	
	OIG	
	OIG	



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

DRAFT FINDING OUTLINE

(b)(5)

(b)(5)

Purpose: To document FHFA-OIG's draft audit finding outline regarding the audit of FHFA's consumer complaints process. Source: FHFA-OIG audit working papers. Conclusion: Draft finding outline included the condition, cause, effect, criteria, and recommendation for improving FHFA's consumer complaints process (see workpaper PA7.b).

Wolfe, William

From: Wolfe, William
Sent: Friday, June 10, 2011 7:06 AM
To: Roberson, Laura (Laura.Roberson@fhfa.gov)
Subject: FW: FHFA-OIG's Draft Audit Finding Outline re FHFA's Receipt, Processing, & Disposition of Complaints
Attachments: FHFA-OIG Draft Finding Outline re FHFA Receipt, Processing, & Disposition of Complaints-Issued to FHFA 3-2-11.pdf

Here's the finding outline.

From: Wolfe, William
Sent: Wednesday, March 02, 2011 6:43 PM
To: Burns, Meg; Taylor, Mary Ellen
Cc: Crandlemire, Bruce; Major, John; David, Mark; Beard, Michael (Michael.Beard@fhfa.gov); Roberson, Laura
Subject: FHFA-OIG's Draft Audit Finding Outline re FHFA's Receipt, Processing, & Disposition of Complaints

Ms. Burns/Ms. Taylor:

As promised in my telephone conversation with John Major this afternoon, attached is the subject item from FHFA's Office of Inspector General for Audit.

(b)(5)

If you have any questions or desire further information, please contact myself or Michael Beard, Acting Deputy Inspector General for Audit, at (202) 408-2930. Thanks!

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

(b)(5)

Wolfe, William

Subject: FHFA-OIG's Internal Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
Location: Room 3061 at G Street Building
Start: Wed 12/22/2010 10:00 AM
End: Wed 12/22/2010 12:00 PM
Recurrence: (none)
Meeting Status: Meeting organizer
Organizer: Wolfe, William
Required Attendees: Wagner-Smith, Wendy; Beard, Michael
Optional Attendees: Major, John

From: Wagner-Smith, Wendy
Sent: Monday, December 20, 2010 3:46 PM
To: Wolfe, William
Subject: RE: Request for Meeting re FHFA-OIG's Internal Audit FHFA's Receipt, Processing, and Disposition of Internal Complaints

Hi Heath—

I left you a message... not sure what my schedule will be tomorrow afternoon but Wednesday looks wide open, so let me know what your schedule looks like and we'll book a time. ~wws

From: Wolfe, William
Sent: Monday, December 20, 2010 2:27 PM
To: Wagner-Smith, Wendy
Cc: Beard, Michael; Major, John
Subject: Request for Meeting re FHFA-OIG's Internal Audit FHFA's Receipt, Processing, and Disposition of Internal Complaints

Ms. Wagner-Smith:

This e-mail is a follow-up to my voicemail message today. Can we schedule a meeting regarding the subject item? Anytime tomorrow morning (Tuesday, December 21) or anytime on Wednesday, December 22, works for us? Lastly, we can either meet in our conference room (1625 Eye Street-Room 3095) or please indicate an alternate location? Thanks!

Heath Wolfe, Acting Director
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 408-2972
Cell #: (202) 603-9668

(b)(5)

Wolfe, William

Subject: Entrance Conference: FHFA Internal Complaint Process
Location: Gannon Conference Room - G Street, Room 4109

Start: Thu 12/16/2010 9:30 AM
End: Thu 12/16/2010 10:30 AM

Recurrence: (none)

Meeting Status: Accepted

Organizer: David, Mark
Required Attendees: Burns, Meg; Pollard, Alfred; Beard, Michael; Wolfe, William; Kinsey, Mark; Major, John; Conference Room (G St) 4109, Gannon

When: Thursday, December 16, 2010 9:30 AM-10:30 AM (GMT-05:00) Eastern Time (US & Canada).
Where: Gannon Conference Room - G Street, Room 4109

Note: The GMT offset above does not reflect daylight saving time adjustments.

~~*~*~*~*~*~*~*~*

Purpose of meeting: Entrance conference to discuss the OIG's evaluation of the receipt, processing, and disposition of complaints at FHFA, and Fannie Mae and Freddie Mac. This evaluation deals specifically with the FHFA's internal procedures associated with the processing of complaints.

The following is the e-mail request by Michael Beard for complaint documentation:

By memoranda dated November 11, 2010, the Inspector General (OIG)

(b)(5)

(b)(5)

(b)(5)

If you have any questions concerning this request, then please contact me at (202) 408-2930 or Michael.Beard@FHFA.Gov.

(b)(5)

Wolfe, William

Subject: Exit Conference re Draft Audit Report Entitled, FHFA's Consumer Complaints Process
Location: Conference Room (G St) 4109, Gannon

Start: Fri 5/20/2011 2:00 PM
End: Fri 5/20/2011 3:00 PM

Recurrence: (none)

Meeting Status: Meeting organizer

Organizer: Wolfe, William
Required Attendees: Burns, Meg; Pollard, Alfred; Spohn, Jeffrey; Taylor, Mary Ellen; Rau, Russell; Roberson, Laura; Johnson, Mary; Major, John; David, Mark; Saddler, Bryan
Optional Attendees: Crandlemire, Bruce; Kinsey, Mark
Resources: Conference Room (G St) 4109, Gannon

May 18, 2011:

(b)(5)

(b)(5)

If you have any questions, please contact me. Thanks!

(b)(5)

May 16, 2011:

Per my e-mail, dated May 13, 2011, this is the exit conference for the complaints audit. Attached is a copy of the draft report. If you have any questions, please let me know. Thanks!

Heath Wolfe, Director of Housing Mission Management
Federal Housing Finance Agency
Office of Inspector General-Audit
Washington, DC
Phone #: (202) 408-2588
Fax #: (202) 445-2075
Cell #: (202) 603-9668

(b)(5)

(b)(5)



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
Tel: (202) 408-2544 Fax: (202) 408-2972

DATE: June 21, 2011

MEMORANDUM TO: Meg Burns, Senior Associate Director for Congressional Affairs
and Communications

(b)(5)

FROM: Russell A. Rau
Deputy Inspector General for Audits

SUBJECT: Final Audit Report Entitled, FHFA's Consumer Complaints Process
(Assignment No. AUD-2011-001)

Attached for your information and use is the final report on our audit of FHFA's consumer complaints process.

(b)(5)

If you have questions concerning the final report, please contact Heath Wolfe, Audit Director, at (202) 408-2588 or me at (202) 445-2167. We appreciate the courtesies extended to the audit staff.

Attachment

cc: Edward DeMarco, Acting Director
Stephen Cross, Acting Chief Operating Officer
Alfred Pollard, General Counsel
Jeffrey Spohn, Senior Associate Director for Conservatorship Operations
Chris Dickerson, Acting Deputy Director for Enterprise Regulation
Mark Kinsey, Chief Financial Officer
Mary Ellen Taylor, Associate Director for Agency Communications
Bruce Crandlemire, Senior Advisor for IG Operations
John Major, Internal Controls and Audit Follow-Up Manager



IG BRIEFING

AUDIT NO. 11-02-OGC_OCAC

FHFA's Receipt, Processing, and Disposition of (Internal)
Complaints

February 10, 2011

FHFA-OIG Audit Team

- Michael Beard, Acting Deputy Inspector General for Audits;
- Heath Wolfe, Auditor-in-Charge; and
- Laura Roberson, Senior Auditor

Reason for Audit

(b)(5)

Audit Objective

(b)(5)

Scope

-

(b)(5)

(b)(5)

Audit Timeframe

(b)(5)

FIELDWORK

-
-

(b)(5)

FIELDWORK – *to do's*

(b)(5)

DRAFT FINDING No. 1

(b)(5)

DRAFT FINDING No. 2

(b)(5)

Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC

Referencer's Checklist

	Yes	No	N/A	Comments
Place an "X" in the applicable column				
Pre-Referencing				
1				(b)(5)
2				
3				
4				
5				
6				
1				

Purpose:

(b)(5)

Source:

(b)(5)

in accordance with FHFA-OIG Policy and Procedures Manual 310.7, paragraph 5.c.).

Conclusion:

Audit Manager Brian Flynn, June 15, 2011
 Referenced report is in compliance with standards of FHFA-OIG Policy and Procedures Manual 310.7, Audit reporting

Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC

	Yes	No	N/A	Comments
2				
3				
4				
5				
6				
7				
8				(b)(5)
9				
10				
11				
1				
2				

Purpose:

(b)(5)

Source:

(b)(5) (in accordance with FHFA-OIG Policy and Procedures Manual 310.7, paragraph 5.c.).

Conclusion:

Audit Manager Brian Flynn, June 15, 2011
 Referenced report is in compliance with standards of FHFA-OIG Policy and Procedures Manual 310.7, Audit reporting

Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC

Appendix: Referencer Point Sheet

Tick marks: <input type="checkbox"/> Approved by Referencer <input checked="" type="checkbox"/> Computation Verified <input checked="" type="checkbox"/> Footed/Cross-Footed <input type="checkbox"/> OIG Analysis				
Point #	Page # Para. #	Referencer's Comments/ Suggested Changes	Auditor's Response/Action	Approved by Referencer
	[link]			<input checked="" type="checkbox"/> [init./date]
1		(b)(5)		Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
2				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
3				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
4				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
5				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
6				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
7				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
8				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>
9				Resolved - <div style="border: 1px solid black; padding: 2px; display: inline-block;">(b)(6)</div>

Purpose:

(b)(5)

Source:

(b)(5)

 (in accordance with FHFA-OIG Policy and Procedures Manual 310.7, paragraph 5.c.).
Audit Manager Brian Flynn, June 15, 2011

Conclusion:

Referenced report is in compliance with standards of FHFA-OIG Policy and Procedures Manual 310.7, Audit reporting

**Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC**

Tick marks: ☒ Approved by Referencer ✓ Computation Verified ✗ Footed/Cross-Footed ††† OIG Analysis				
Point #	Page # Para.	Referencer's Comments/ Suggested Changes	Auditor's Response/Action	Approved by Referencer
10	3	(b)(5)		Resolved - (b)(6)
11	3			Resolved - (b)(6)
12	3			Resolved - (b)(6)
13	3			Resolved - (b)(6)
14	3			Resolved - (b)(6)
15	4			Resolved - (b)(6)
16	4			Resolved - (b)(6)
17	5			Resolved - (b)(6)
18	6			Resolved - (b)(6)
19	12			Resolved - (b)(6)

Purpose: Independent review of the contents of the indexed-report to supporting documentation with evidence of supervisory review (in accordance with FHFA-OIG Policy and Procedures Manual 310.7, paragraph 5.c.).

Source: Audit Manager Brian Flynn, June 15, 2011

Conclusion: Referenced report is in compliance with standards of FHFA-OIG Policy and Procedures Manual 310.7, Audit reporting

Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC

Tick marks: <input type="checkbox"/> Approved by Referencer <input checked="" type="checkbox"/> Computation Verified <input checked="" type="checkbox"/> Footed/Cross-Footed <input type="checkbox"/> OIG Analysis				
Point #	Page # Para. #	Referencer's Comments/ Suggested Changes	Auditor's Response/Action	Approved by Referencer
20	13	(b)(5)	(b)(5)	Resolved -
				(b)(6)
21	8			Resolved -
				(b)(6)

Purpose: Independent review of the contents of the indexed-report to supporting documentation with evidence of supervisory review (in accordance with FHFA-OIG Policy and Procedures Manual 310.7, paragraph 5.c.).
Source: Audit Manager Brian Flynn, June 15, 2011
Conclusion: Referenced report is in compliance with standards of FHFA-OIG Policy and Procedures Manual 310.7, Audit reporting

(b)(6)

(b)(5),(b)(6)

(b)(6)

(b)(6)

FHFA OIG Independence Statement

STATEMENT ON AUDITOR INDEPENDENCE

OIG auditors are responsible for disclosing any personal impairment that could affect their independence, in fact or appearance, for each audit assignment. Auditors must be familiar with the GAGAS definition of independence and provide the following representation in the TeamMate as a workpaper:

“I, Laura P. Roberson, certify that I understand the independence standard as defined in GAGAS and have no personal impairments to independence, either in fact or in appearance, that could affect my work on OIG Audit Assignment # 11-02-OGC_OCAC. I further understand that should this status change and a personal impairment arises during the course of this assignment, I will notify my supervisor immediately.”

(b)(6)

Auditor

February 18, 2011

Date

Purpose: To determine whether Laurie Roberson, Acting Senior Auditor, certified as to whether she had any personal impairments to independence, either in fact or appearance, that could affect her work on FHFA-OIG's audit assignment #11-02-OGC_OCAC. Source: Laurie Roberson, Acting Senior Auditor. Conclusion: Laurie Roberson certified that she did not have any personal impairments to independence, either in fact or appearance, that could affect her work on FHFA-OIG's audit assignment # 11-02-OGC_OCAC.

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Entrance Conference

Date: Thursday, December 16, 2010

Time: 9:30 a.m. – 10:45 a.m.

Attendees: John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Mark David, Senior Management Analyst-FHFA
Mary Ellen Taylor, Associate Director for Communications-FHFA
Wendy Wagner-Smith, Writer/Editor-FHFA
Mark Kinsey, Chief Financial Officer-FHFA
Alfred Pollard, General Counsel-FHFA
Michael Beard, Acting Deputy IG for Audit FHFA-OIG (Detailed from HUD-OIG)
Steve Linick, Inspector General FHFA-OIG
Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)
Bryan Saddler, Chief Counsel FHFA-OIG

Place: 1700 G Street, NW, Gannon Conference Room 4109 (see workpapers PA4.b and PA4.d)

The parties met to conduct the entrance conference for FHFA-OIG's audit of FHFA's receipt, processing, and disposition of internal complaints.

Mr. Wolfe provided all parties with a handout titled "Entrance Conference Internal Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints, December 16, 2010" (see workpaper PA4.c). During the course of the meeting, Mr. Wolfe covered all aspects of the handout with all parties present.

Mr. Pollard provided the following comments regarding FHFA's receipt, processing, and disposition of internal complaints:

(b)(5)

Ms. Wagner-Smith provided the following comments regarding FHFA's receipt, processing, and disposition of internal complaints:

(b)(5)

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(b)(5)

- Purpose:** To determine whether FHFA-OIG held an entrance conference with FHFA staff regarding OIG's audit of FHFA's receipt, processing, and disposition of internal complaints.
- Source:** See list of attendees on first page plus conference record roster of attendees at workpaper PA4.b.
- Conclusion:** FHFA-OIG staff conducted an entrance conference with FHFA staff on 12/16/10.

Exit Conference

Date: Friday, May 20, 2011

Time: 2:00 p.m. – 3:30 p.m.

Attendees: John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Meg Burns, Senior Associate Director for Congressional Affairs and Communications-FHFA
Mary Ellen Taylor, Associate Director for Communications-FHFA
Mark Kinsey, Chief Financial Officer-FHFA
Alfred Pollard, General Counsel-FHFA
Russell Rau, Deputy IG for Audits FHFA-OIG
Heath Wolfe, Audit Director FHFA-OIG
Bryan Saddler, Chief Counsel FHFA-OIG
Laurie Roberson, Audit Manager FHFA-OIG

Place: 1700 G Street, NW, Gannon Conference Room 4109 (see workpapers PA4.f and PA4.h)

The parties met to conduct the exit conference for FHFA-OIG’s audit of FHFA’s consumer complaints process.

Mr. Wolfe provided all parties with a handout titled “Exit Conference Audit of the FHFA’s Consumer Complaints Process, May 20, 2011” (see workpaper PA4.g). During the course of the meeting, Mr. Wolfe covered all aspects of the handout with all parties present.

Mr. Pollard [redacted] (b)(5)
[redacted] (b)(5)

Mr. Major [redacted] (b)(5)
[redacted] (b)(5) [redacted] (b)(5)

[redacted] (b)(5)

Mr. Rau responded that FHFA’s [redacted] (b)(5)
[redacted] (b)(5)

Messrs. Major & Kinsey then indicated that [redacted] (b)(5)
[redacted] (b)(5)

(b)(5) Mr. Rau's (b)(5) Russ (b)(5)
(b)(5) Ms. Burns (b)(5)
(b)(5) Mr.
(b)(5)

(b)(5)
(b)(5) Mr. Pollard said (b)(5)
(b)(5)

(b)(5) Ms. Burns (b)(5)
(b)(5) Mr. Rau (b)(5)
(b)(5)

Mr. Pollard said (b)(5)
(b)(5)

(b)(5)
(b)(5) (Mr. Major (b)(5)
(b)(5) Mr. Pollard.) Rau responded (b)(5)
(b)(5)

Mr. Kinsey (b)(5)

Mr. Rau (b)(5)

Note: (b)(5)
(b)(5)

Auditor's Note: (b)(5)

(b)(5)

(b)(5)

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(b)(5)

Purpose: To document FHFA-OIG's interview with Wendy Wagner-Smith regarding FHFA's receipt, processing, and disposition of complaints to FHFA's FHFAInfo website.

Source: See attendees on page 1.

Conclusion: Ms. Wagner-Smith said: (1) not aware of any written policies or procedures that FHFA may have regarding electronic complaints; (2) she doesn't establish/set a deadline when the GSEs have to respond to the complainant(s) and/or to FHFA; (3) FHFA is approximately 2 weeks behind on the reconciliations and the reconciliation only includes determining whether a complaint is listed on the GSE's Excel file when compared to FHFAInfo, it doesn't include how timely action was taken, the appropriateness of the GSE's response, etc.; and (4) FHFA's OCO is not involved in the communications between the GSEs and FHFA's OCAC.

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Interview Record

Date: Wednesday, December 22, 2010

Time: 10:00 a.m. – 11:55 a.m.

Attendees: John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Wendy Wagner-Smith, Writer/Editor-FHFA
Michael Beard, Acting Deputy IG for Audit FHFA-OIG (Detailed from HUD-OIG)
Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)

Place: 1700 G Street, NW, Ms. Wagner-Smith's Office Room 3061 (see workpaper PA6.b)

Ms. Wagner-Smith provided the following information regarding FHFA's receipt, processing, and disposition of internal complaints:

(b)(5)

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- [Redacted] (b)(5)
- At the beginning of 2010, [Redacted] (b)(5)
- [Redacted] (b)(5)
- At the end of 2009, [Redacted] (b)(5)
- [Redacted] (b)(5)

[Redacted] (b)(5)

[Redacted] (b)(5)

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Interview Record

Date: Thursday, January 6, 2011

Time: 10:11 a.m. – 11:17 a.m.

Present: John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Alfred Pollard, General Counsel-FHFA
Michael Beard, Acting Deputy IG for Audit FHFA-OIG (Detailed from HUD-OIG)
Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)
Bryan Saddler, Chief Counsel FHFA-OIG
Karen Briscoe, Special Agent FHFA-OIG (Detailed from IRS-CID)

Place: 1625 Eye Street, NW, Conference Room 3016

Mr. Wolfe called the meeting to discuss FHFA's procedures regarding receipt, processing and disposition of complaints.

(b)(5)

Mr. Pollard (b)(5)

(b)(5)

Mr. Pollard (b)(5)

(b)(5)

Mr. Pollard (b)(5)

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(b)(5)

Mr. Pollard (b)(5)

(b)(5)

Mr. Pollard (b)(5)

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

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Mr. Pollard

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Mr. Pollard (b)(5)

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Mr. Pollard's

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(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

d

If Amy or Wendy, on Mr. Pollard's staff,

(b)(5)

Mr. Pollard,

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

(b)(5)

(b)(5)

Mr.

Pollard

(b)(5)

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Wolfe provided Mr. Pollard

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(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Pollard to Ming Yuen, an attorney on Mr. Pollard's staff. Ming Yuen

(b)(5)

(b)(5)

(b)(5)

Mr. Pollard and

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

(b)(5)

Mr. Pollard. Mr. Pollard

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

(b)(5)

(b)(6)

(b)(5)

Mr. Pollard

(b)(5)

Mr. Pollard

(b)(5)

(b)(5)

Mr. Major

(b)(5)

(b)(5)

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Interview Record

Date: Wednesday, January 5, 2011

Time: 2:00 p.m. – 3:00 p.m.

Attendees: John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Amy Lakroune, Webmaster-FHFA
Michael Beard, Acting Deputy IG for Audit FHFA-OIG (Detailed from HUD-OIG)
Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)
Mary Ellen Taylor, Associate Director for Communications-FHFA

Place: 1700 G Street, NW, Ms. Taylor's Office Room 4010

Ms. Lakroune provided the following information regarding FHFA's receipt, processing, and disposition of internal complaints:

- [Redacted] (b)(5)
- [Redacted] (b)(5)
- Ms. Wagner-Smith [Redacted] (b)(5) Wendy [Redacted] (b)(5)
- [Redacted] (b)(5)
- [Redacted] (b)(5)
- Starting June 1, 2010, Wendy [Redacted] (b)(5)
- [Redacted] (b)(5)
- [Redacted] (b)(5)
- [Redacted] (b)(5)
- [Redacted] (b)(5)

[Redacted] (b)(5)

[Redacted] (b)(5)

[Redacted] (b)(5) Ms. Lakroune said: [Redacted] (b)(5)

[Redacted] (b)(5) Ms. Wagner-Smith [Redacted] (b)(5)

[Redacted] (b)(5)

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(b)(5)

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Interview Record

Date: Tuesday, January 18, 2011

Time: 3:07 p.m. – 3:39 p.m.

Present: Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)
Karen Briscoe, Special Agent FHFA-OIG (Detailed from IRS-CID)
John Major, Internal Controls and Audit Follow-Up Manager-FHFA
Jascy Hamilton-Brown, Administrative Management Specialist, Office of the Director, FHFA

Place: 1700 G Street, NW, 4th Floor, Small Directors' Conference Room

(b)(5)

Ms. Hamilton-Brown provided the following information:

Ms. Hamilton-Brown (b)(5) Andera Relerford, (b)(6)

(b)(5)

(b)(5)

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(b)(5)

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(b)(5)

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Interview Record

Date: Thursday, January 6, 2011

Time: 2:00 p.m. – 2:40 p.m.

Present: Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)
Karen Briscoe, Special Agent FHFA-OIG (Detailed from IRS-CID)
Mary Ellen Taylor, Associate Director for Communications, Office of Congressional
Affairs and Communication, FHFA
John Major, Internal Controls and Audit Follow-Up Manager-FHFA

Place: 1700 G Street, NW, Alice Gannon Conference Room

(b)(5)

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(b)(5)

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Record of Interview

Purpose: To obtain an understanding of the Office of Conservatorship Operations' involvement and/or oversight of complaints referred to Fannie Mae and Freddie Mac (the GSEs) by FHFA.

Date/Time: Wednesday, February 2, 2011 @ 10:00 a.m. (EST)

Source/Attendees: John Major, FHFA-Internal Controls and Audit Follow-Up/Manager
Mary Johnson, FHFA-Office of Conservatorship Operations (OCO)/Manager
Owen Highfill, FHFA-Office of Conservatorship Operations (OCO)/
Heath Wolfe, FHFA-OIG/Acting Audit Director (detailed from HUD-OIG)
Laura Roberson, FHFA-OIG/Senior Auditor (detailed from USDA-OIG)
Jennifer Fain, FHFA-OIG /Audit Director
Madhuri Edwards, FHFA-OIG /Deputy Director

Place: 1700 G Street, NW
Washington, D.C. 20006

Conclusion:

(b)(5)

Details:

(b)(5)

Per M. Johnson,

(b)(5)

(b)(5)

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M. Johnson (b)(5)
(b)(5) (b)(2),(b)(5)
(b)(2),(b)(5)
(b)(2),(b)(5) (b)(5)
(b)(5)
(b)(5)
(b)(5)
(b)(5) M. Johnson (b)(5)
(b)(5)
(b)(5)
M. Johnson (b)(5)
(b)(5)
Lastly, M. Johnson (b)(5)
(b)(5) Per this statement, H. Wolfe (OIG) (b)(5)
(b)(5) M. Johnson (b)(5)
(b)(5)
(b)(5)
(b)(5) M. Johnson (b)(5)
(b)(5)
H. Wolfe (OIG) (b)(5)
(b)(5) M. Johnson (b)(5)
(b)(5)
H. Wolfe (OIG) continued (b)(5) M Johnson stated (b)(5)
(b)(5)

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L. Roberson (OIG) [redacted] (b)(5)
[redacted] (b)(5)
[redacted] (b)(5) M. Johnson responded by stating [redacted] (b)(5)
[redacted] (b)(5)
[redacted] (b)(5) H. Wolfe (OIG) inquired [redacted] (b)(5)
(b)(5) M. Johnson stated [redacted] (b)(5)
H. Wolfe (OIG) asked [redacted] (b)(5)
M. Johnson stated [redacted] (b)(5)
[redacted] (b)(5)
(b)(5) H. Wolfe (OIG) requested M. Johnson [redacted] (b)(5)
M. Johnson explained [redacted] (b)(5)
[redacted] (b)(5)
[redacted] (b)(5)
[redacted] (b)(5) M. Johnson [redacted] (b)(5)
[redacted] (b)(5)
L. Roberson (OIG) followed up by inquiring [redacted] (b)(5) M. Johnson stated that FHFA
[redacted] (b)(5) H. Wolfe (OIG)
asked [redacted] (b)(5) M. Johnson stated [redacted] (b)(5)
[redacted] (b)(5) Additionally, M. Johnson stated [redacted] (b)(5)
[redacted] (b)(5)

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Record of Interview (1)

Purpose: To obtain an understanding of TRAKKER and its capabilities

Date/Time: Tuesday, February 8, 2011 @ 11:00 a.m. (EST)

Source/Attendees: Mark David, FHFA/Liaison
Tony Vitale, FHFA-Office of Technology and Information Management (OTIM)/Manager
Heath Wolfe, FHFA-OIG/Acting Audit Director (detailed from HUD-OIG)
Laura Roberson, FHFA-OIG/Senior Auditor (detailed from USDA-OIG)

Place: 1625 'Eye' Street, NW
Washington, D.C. 20006

Conclusion:

(b)(5)

(b)(5)

T. Vitale initiated the meeting (b)(5)

(b)(5)

(b)(5)

(b)(5)

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L. Roberson (OIG) inquired (b)(5)
(b)(5)
(b)(5) T. Vital stated that as (b)(5)
(b)(5) T. Vitale elaborated and
stated that Jacey Hamilton-Brown (b)(5)
(b)(5)

H. Wolfe (OIG) inquired (b)(5) For example, H. Wolfe (OIG) brought to
T. Vitale's attention (b)(5)
T. Vitale stated that (b)(5)
(b)(5) T. Vitale stated (b)(5)
(b)(5) H. Wolfe (OIG) requested (b)(5)
(b)(5)

(b)(5)

Record of Interview - Observation (2)

Purpose: Demonstration of TRAKKER

Date/Time: Friday, February 11, 2011 @ 10:00 a.m. (EST)

Source/Attendees: John Major, FHFA/Liaison
Tony Vitale, FHFA - OTIM/Manager
Brad Blackmon, FHFA – OTIM/Lead Developer
Laura Roberson, FHFA-OIG/Senior Auditor (detailed from USDA-OIG)
Evan Donahey, FHFA-OIG/Intern

Place: 1750 Pennsylvania Ave, NW
Washington, D.C. 20006

Conclusion: (b)(5)

Details:
On Friday, February 11, 2011, (b)(5)
(b)(5)

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(b)(5) Additionally, Jacey Hamilton-Brown (b)(5)
(b)(5) (b)(5)
(b)(5)

L. Roberson (OIG) explained to T. Vitale that currently FHFA (b)(5)
(b)(5) L. Roberson asked (b)(5)
(b)(5) T. Vitale (b)(5) L. Roberson (b)(5)
(b)(5)
(b)(5) L. Roberson followed by asked T. Vitale (b)(5)
(b)(5) T. Vitale stated (b)(5)
(b)(5)
(b)(5) J. Hamilton- Brown and
(b)(5)
(b)(5) T. Vitale concluded (b)(5)
(b)(5)
(b)(5) L. Roberson asked (b)(5) T. Vitale restated (b)(5)
(b)(5)

(b)(5) B. Blackmon (OTIM) (b)(5)
(b)(5)

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Record of Interview

Purpose: Follow Up on complaint database/logs and TRAKKER

Date/Time: Thursday, February 10, 2011 @ 10:00 a.m. (EST)

Source/Attendees: Mark David, FHFA/Liaison
Wendy Wagner – Smith, FHFA-OCAC/Writer
Heath Wolfe, FHFA-OIG/Acting Audit Director (detailed from HUD-OIG)
Laura Roberson, FHFA-OIG/Senior Auditor (detailed from USDA-OIG)
Evan Donahey, FHFA-OIG/Intern

Place: 1700 G Street, NW
Washington, D.C. 20006

Conclusion:

(b)(5)

(b)(5)

Details:

(b)(5)

To begin, W. Wagner-Smith explained

(b)(5)

(b)(5)

TRAKKER

L. Roberson (OIG) inquired with W. Wagner-Smith

(b)(5)

(b)(5)

(b)(5)

W. Wagner-Smith replied that in

(b)(5)

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(b)(5)

W. Wagner-Smith also (b)(5) (b)(5)
(b)(5) As
(b)(5) W. Wagner-Smith and Amy Lakroune (OCAC)
(b)(5) Furthermore W
Wagner-Smith and A. Lakroune (b)(5)
(b)(5) W. Wagner-Smith (b)(5)

W. Wagner-Smith (b)(5)
(b)(5)
(b)(5)
(b)(5) W. Wagner-Smith. The (b)(5)
(b)(5)

(b)(5)
W. Wagner-Smith stated (b)(5)
(b)(5) W. Wagner-Smith
(b)(5)
(b)(5) W. Wagner-Smith (b)(5)
(b)(5)

Furthermore W. Wagner-Smith explained (b)(5)
(b)(5)
(b)(5) W. Wagner-Smith stated (b)(5)

W. Wagner-Smith explained (b)(5)
(b)(5)

1. (b)(5) W. Wagner-Smith and FHFAInfo@fhfa.gov);
(b)(5)
2. (b)(5)
3. (b)(5) FHFAInfo@fhfa.gov (b)(5)

4. (b)(5)
5.
6.

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(b)(5)

W. Wagner-Smith explained (b)(5) FHFAInfo@fhfa.gov (b)(5)

(b)(5)

(b)(5)

L. Roberson (OIG) (b)(5)

(b)(5) FHFAInfo@fhfa.gov (b)(5)

(b)(5) W. Wagner-Smith stated (b)(5)

(b)(5) (b)(4),(b)(5)

(b)(4),(b)(5) FHFAInfo@fhfa.gov (b)(4),(b)(5)

FHFAInfo@fhfa.gov (b)(5)

(b)(5) FHFAInfo@fhfa.gov (b)(4),(b)(5)

(b)(4),(b)(5)

(b)(5)

W. Wagner-Smith stated (b)(5)

(b)(5) However, W. Wagner-Smith

(b)(5)

(b)(5) W. Wagner-Smith explained that after

(b)(5)

The standard procedures are as follows:

1. (b)(5)
2. (b)(5)
3. (b)(5)

Additionally, W. Wagner-Smith explained (b)(5)

(b)(5) W. Wagner-Smith (b)(5)

(b)(5)

(b)(5) FHFAInfo@fhfa.gov (b)(5) W. Wagner-Smith

(b)(5) FHFAInfo@fhfa.gov. She noted

(b)(5)

(b)(5) (W. Wagner-Smith and A. Lakroune (b)(5)

(b)(5) W. Wagner-Smith (b)(5)

(b)(5) W. Wagner-Smith (b)(5)

**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

(b)(5) W. Wagner-Smith (b)(5)

(b)(5)

W. Wagner-Smith (b)(5)

(b)(5) W. Wagner-Smith stated that

(b)(5)

W. Wagner-Smith stated (b)(5)

(b)(5)

(b)(5)
L. Roberson (OIG) inquired with W. Wagner-Smith (b)(5)

(b)(5) W. Wagner-Smith stated (b)(5)

However W. Wagner-Smith (b)(5)

(b)(5) W.
Wagner-Smith (b)(5)

(b)(5)

The trends that W. Wagner-Smith has observed are as follows –

(b)(5)

W. Wagner-Smith stated (b)(5)

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 31, 2010
Assignment No. 11-02-OGC_OCAC**

(b)(5)

W. Wagner -

(b)(5)

(b)(5)

**Federal Housing Finance Agency
Office of Inspector General (OIG)
Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
For the Period of July 30, 2008 Through October 12, 2010
Assignment No. 11-02-OGC_OCAC**

Interview Record

Date: Wednesday, December 29, 2010

Time: 1:05 p.m.

Attendees: Wendy Wagner-Smith, Writer/Editor-FHFA
Heath Wolfe, Acting Audit Director FHFA-OIG (Detailed from HUD-OIG)

Place: 1700 G Street, NW, Ms. Wagner-Smith's Office-Room 3061

(b)(5)

(b)(5)

Roberson, Laura

From: Saddler, Bryan
Sent: Tuesday, June 21, 2011 6:01 PM
To: Curtis, Tyler (b)(5)
Cc: Linick, Steve
Subject: Audit Report: FHFA's Consumer Complaints Process
Attachments: Consumer Complaints.pdf

Tyler: Good evening. Today, FHFA-OIG issued its first audit report: Audit of the Federal Housing Finance Agency's Consumer Complaints Process, AUD-2011-001 (June 21, 2011). (Attached.)

In light of the housing crisis and a surge of consumer complaints, Congress and others expressed interest in whether FHFA adequately responded to the complaints including, but not limited to, complaints of fraud, waste, or abuse. These complaints run the gamut from difficulties obtaining information from Fannie Mae and Freddie Mac to allegations of potential criminal activity. FHFA-OIG initiated an audit to assess how FHFA processed consumer complaints and found that FHFA did not adequately process such complaints.

FHFA-OIG determined that FHFA had inadequate procedures, afforded no priority to complaints, and could not demonstrate that it appropriately addressed allegations of fraud. Regarding procedures, FHFA debated its role in the complaints process for two years, and during that time it did not establish organizational policies for addressing complaints. With respect to prioritizing complaints, FHFA commingled complaints with other correspondence submitted to the Agency, and did not allocate sufficient resources to the function (for example, it assigned the function of receiving, considering, and addressing complaints to two staffers with other significant responsibilities). Finally, FHFA does not have records demonstrating its disposition of the majority of complaints – including complaints alleging potential criminal conduct – that it received during the audit period. This failing is of particular concern because one month prior to the audit period allegations concerning Taylor, Bean & Whitaker Mortgage Corporation (TBW) were received, but FHFA did not follow-up on the allegations. To date, seven individuals have been convicted in connection with a multi-billion dollar fraud connected with the TBW allegations.

FHFA concurred with the report's recommendations that it: (1) design and implement written policies, procedures, and controls governing the receipt, processing, and disposition of consumer complaints and allegations of fraud; define the related roles and responsibilities for FHFA, Fannie Mae, and Freddie Mac; and provide for consultation with FHFA-OIG to process allegations of fraud; (2) assess the sufficiency of resources allocated to the complaints process; and (3) determine whether there are unresolved complaints alleging fraud or other potential criminal activity.

Please give me a call, if you have any questions concerning the audit or any other matter. Thanks,

Bryan Saddler,
Chief Counsel
Office of Inspector General
Federal Housing Finance Agency
1625 I Street, N.W.
Room 7035
Washington, DC 20006
Telephone: (202) 408-2577
Bryan.Saddler@FHFA.GOV

**Federal Housing Finance Agency
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Audit of FHFA's Receipt, Processing, and Disposition of Internal Complaints
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CPE CYCLE
Number 11

Completion Date	Professional Proficiency Hours	+	Govt Auditing (24 CPEs)	=	Total Hours (80 CPEs)	Hours Needed to meet 20 Annual CPEs	Hours Needed to meet 24 Govt Auditing	Hours Needed to meet 80 CPE Hours
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WOLFE, WILLIAM

(b)(6)

CPE CYCLE
Number 12

Completion Date	Professional Proficiency Hours	+	Govt Auditing (24 CPEs)	=	Total Hours (80 CPEs)	Hours Needed to meet 20 Annual CPEs	Hours Needed to meet 24 Govt Auditing
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Note: Staff without any training during the 2 years will not be included in this report. Add at least one request for a new person to make them show appear in the report.

WOLFE, WILLIAM

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(b)(5),(b)(6)



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
1625 Eye Street, NW, Washington DC 20006
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FHFA-OIG's Independence Statement

STATEMENT ON AUDITOR INDEPENDENCE

OIG auditors are responsible for disclosing any personal impairment that could affect their independence, in fact or appearance, for each audit assignment. Auditors must be familiar with the GAGAS definition of independence and provide the following representation in TeamMate as a workpaper:

"I, Heath Wolfe, certify that I understand the independence standard as defined in GAGAS and have no personal impairments to independence, either in fact or in appearance, that could affect my work on OIG Audit Assignment # 11-02-OGC OCAC. I further understand that should this status change and a personal impairment arises during the course of this assignment, I will notify my supervisor immediately."

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