Federal Housing Finance Agency
Office of Inspector General

Semiannual Report to the Congress

April 1, 2015, through September 30, 2015

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Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, stakeholders, and the American people. The FHFA Office of Inspector General (OIG) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and brings enforcement actions against those, whether inside or outside of the federal government, who waste, steal, or abuse government funds in connection with the Agency, Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks.

Our Mission

OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency in order to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust enforcement efforts to protect the interests of the American taxpayers.

Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we strive to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they go, without fear or favor; report findings that are supported by sufficient evidence in accordance with professional standards; and recommend actions tied to our findings. Our work is risk-based, credible, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and its conservatorship of Fannie Mae and Freddie Mac). The U.S. taxpayers have invested $187.5 billion in Fannie Mae and Freddie Mac; our oversight role thus reaches third parties (such as lenders and servicers) who deal with those entities to ensure that they are satisfying their obligations to these entities and that taxpayer monies are not wasted or misused.

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

Report fraud, waste, or abuse by visiting www.fhfaoig.gov/ReportFraud or calling (800) 793-7724.

OIG's Accomplishments from 2010 to Present

129 Reports

- **52** Audits
- **38** Evaluations
- **8** White Papers
- **7** Evaluation Surveys
- **2** Compliance Reports
- **10** Semiannual Report to Congress
- **12** Systemic Implication Reports (SIRs)[a]

228 Recommendations

50 Regulatory Activities

$2.8B Recoveries

499 Investigations

- **$4.2 billion** Criminal Monetary Results[b]
- **$34.2 billion** Civil Monetary Results[c]

266 Subpoenas

662 Indictments/ Charges[d]

379 Convictions/Pleas

[a]12 SIRs have been produced, of which 5 have been published publicly and 7 remain privileged due to their investigative content.
[b]Includes criminal restitution and forfeitures/fines/special assessments and seizures.
[c]Includes settlements/recoveries/fines.
[d]Superseding indictments are included in this total.

A Message from the Inspector General

I am pleased to present OIG's tenth Semiannual Report to the Congress, which covers the period from April 1, 2015, to September 30, 2015.

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

Our mission is to promote economy, efficiency, and effectiveness of FHFA and protect FHFA, the Enterprises in its conservatorship, and the entities it regulates against fraud, waste, and abuse, through independent, relevant, timely, and transparent oversight and robust law enforcement efforts. OIG seeks to be a voice for, and protect the interests of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

To best leverage our resources to strengthen OIG's oversight, we determined to focus our audit and evaluation efforts on assessing existing controls on those programs and operations that we determined to pose the greatest financial, governance, and/or reputational risk to FHFA, the Enterprises, and the FHLBanks. Those risks are conservatorship operations, Enterprise supervision, counterparties (nonbank sellers), and information technology security. We created an Office of Compliance in December 2014 to conduct verification testing of closed recommendations to independently verify whether the Agency has implemented in full the corrective actions it represented to OIG that it intended to take.

This approach enables OIG to prioritize the most critical risks for scrutiny, offer targeted recommendations for corrective actions, and conduct validation testing to ensure the recommendations are fully implemented and yield meaningful change. This Semiannual Report details our audits and evaluations in which we tested the adequacy of existing controls to mitigate known risks and compliance reviews to assess the adequacy of remedial efforts to cure previously identified deficiencies.

OIG also furthers its mission through vigorous law enforcement efforts. To date, 662 charges have been brought against defendants involved with crimes investigated by OIG, of which 379 individuals have been convicted or pled guilty and 285 have been sentenced. Additionally, OIG saw significant developments in a number of its cases; for example, a lead defendant was sentenced to 20 years in prison for his role in a loan modification scheme that preyed on distressed homeowners in danger of losing their homes, and three individuals were indicted for their alleged role involving fraud in connection to the sales of residential mortgage-backed securities bonds. To date, OIG has obtained $34.2 billion in civil monetary results and $4.2 billion in criminal monetary results.

OIG has worked diligently to act as a catalyst for effective management, accountability, and positive change in FHFA and the entities it regulates. Our achievements would not be possible without the dedication and hard work of the professionals at OIG, and I thank them for their service.

Laura S. Wertheimer
Inspector General
October 30, 2015

Executive Summary

Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**.* HERA charged the newly created FHFA to serve as regulator of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)** (collectively, the **government-sponsored enterprises**, or the **GSEs**) and enhanced its resolution authority.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the Department of the Treasury (Treasury) entered into **Senior Preferred Stock Purchase Agreements (PSPAs)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have injected a total of $187.5 billion since 2008. Initially, conservatorship was intended to be a "time out" during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their eighth year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity.

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

FHFA currently serves in a unique role: it is both conservator and regulator of the Enterprises and regulator of the FHLBanks.

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

Under the Inspector General Act, OIG is charged with oversight of FHFA actions. Our oversight tracks the responsibilities exercised by FHFA. With respect to the Enterprises, as conservator under HERA, FHFA has discretionary or permissive powers, not specific mandates. FHFA is authorized to:

- Succeed to all rights and powers of any stockholder, officer, or director of the Enterprises;

- Operate the Enterprises; and
- Take such action as may be:
  - Necessary to put the Enterprises in a sound and solvent condition; and
  - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.[1]

Where FHFA exercises its conservatorship authority to decide specific issues, such as approval of the Enterprises' annual operating budgets, OIG's responsibilities necessarily include oversight of FHFA's decisions to determine whether FHFA is fulfilling its statutory duties and responsibilities and safeguarding taxpayers.

In November 2008, FHFA delegated authority for general corporate governance and day-to-day matters to the Enterprises for reasons of efficiency, concordant goals with the Enterprises, and operational savings. Any aspect of this delegation of authority may be revoked by FHFA at any time. When an Enterprise takes action pursuant to a delegated grant of authority from FHFA, such as the hiring of a Chief Audit Executive, OIG's oversight role includes FHFA; the Enterprises, recipients of $187.5 billion in taxpayer monies, to ensure that they are satisfying their obligations under the authority delegated to them in the conservatorships; and third parties (such as lenders and **servicers**) to ensure that they are satisfying their obligations to the Enterprises. Through oversight, transparent reporting of results, and robust enforcement, OIG seeks to be a voice for, and protect the interest of, those who have funded Treasury's investment in the Enterprises—the American taxpayers.

This Report

This Semiannual Report discusses OIG operations from April 1, 2015, to September 30, 2015. During this reporting period, OIG directed substantial audit and evaluation resources toward those areas of greatest risk to the Agency: conservatorship operations, supervisory actions, oversight of counterparties (specifically, non-depository financial institutions, hereinafter "nonbank sellers"), and information technology (IT) security. We also continued our vigorous civil, criminal, and administrative enforcement activities against those, inside and outside of government, who waste, steal, or abuse taxpayer monies involving Agency, Enterprise, or FHLBank operations.

What follows provides a brief overview of OIG's risk-based strategy and Audit and Evaluation Plan; challenges that OIG has identified that impact FHFA's programs and operations; OIG's organizational structure; and the results of OIG's audits, evaluations, and compliance tests and regulatory and outreach efforts during this reporting period.

It also discusses numerous OIG investigations that resulted in indictments and convictions of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises, and in fines and restitution orders totaling more than $130 million.

Finally, it discusses the status of OIG's audit and evaluation recommendations.

OIG's Oversight Strategy

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

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

Risk-Focused Strategy

OIG's mandate is broad and comprehensive and encompasses oversight of the full scope of the Agency's programs and operations, including its conservatorship of the Enterprises. Our work plan is dynamic and will adapt to a changing risk profile. To best leverage our resources to strengthen OIG's oversight, we determined to focus our resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks.

Strategic Plan

In February 2014, OIG issued a Strategic Plan for Fiscal Years 2015–2017. OIG intended this Strategic Plan to further the goals of FHFA's then existing strategic plan, and the plan includes four high-level goals that serve as a blueprint for OIG's risk-based oversight of FHFA and independent reporting. The goals are:

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

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

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

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

Strategic Goal 3—Promote Effective FHFA Internal Operations

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

Strategic Goal 4—Promote Effective OIG Internal Operations

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

The Strategic Plan is available at www.fhfaoig.gov/Reports/StrategicPlan. OIG will continue to monitor events; make changes to the Strategic Plan as circumstances warrant; and strive to remain relevant regarding areas of concern to FHFA, the GSEs, Congress, and the American people.

Work Plan

The results of our strategic planning process led us to revise the Audit and Evaluation Plan in February 2015 to focus on four areas of risk:

- ***Conservatorship Operations.*** Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration. As conservator, the Agency has expansive authority to make business and policy decisions for two large, complex companies that dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S. housing finance industry and thus influence and affect the entire mortgage finance industry.
- ***Enterprise Supervision.*** FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises to ensure their safe and sound operation. DER is responsible for designing a comprehensive, risk-based supervisory strategy, conducting ongoing monitoring or targeted examinations of risk areas, and monitoring Enterprise remediation of deficiencies identified during examinations.
- ***Counterparties (Nonbank Sellers).*** The Enterprises have been acquiring an increasing portion of their single-family business volume directly from nonbank sellers, which may not have the same financial strength, liquidity, or operational capacity as their larger depository institution counterparties. As a result, the Enterprises face increased risk that these counterparties could fail to perform their obligations.
- ***IT Security.*** FHFA's and the GSEs' computer systems, software, and networks may be vulnerable to cyber attacks, breaches, unauthorized access, misuse, computer viruses or other malicious codes, or other attempts to harm them or misuse or steal confidential information. Among other things, a breach of their security systems could disrupt their business operations or result in the unauthorized disclosure or misuse of confidential and other information.

Our revised Audit and Evaluation Plan is available at www.fhfaoig.gov/Reports/AuditAndEvaluationPlan. The work plan for each identified risk has been designed to produce reports that can be generated promptly both to increase transparency and to improve the programs and operations of the Agency without compromising the rigor of the methodology.

Challenges Confronting FHFA

OIG's work during FY 2015 confirms that the four high-risk areas identified by OIG in its Audit and Evaluation Plan represent the most significant management and performance challenges facing FHFA. Pursuant to the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), OIG advised FHFA, by memorandum dated October 5, 2015, of the most serious management and performance challenges facing the Agency in FY 2016. A copy of our memorandum is provided in Appendix N.

OIG's Organizational Structure

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

Leadership

On May 22, 2014, President Barack Obama nominated Laura S. Wertheimer to the position of FHFA Inspector General; she was confirmed by the Senate on September 18, 2014, and sworn in shortly thereafter. Prior to becoming Inspector General, Ms. Wertheimer was a partner at a law firm where she led numerous independent internal investigations on behalf of audit, governance, and special board committees of publicly traded companies. She also represented public companies, professional service partnerships, and corporate directors and officers in regulatory investigations and enforcement proceedings under the federal securities laws.

Executive Office

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

EO includes the Office of Chief Counsel (OC), which serves as the chief legal advisor to the Inspector General and provides independent legal advice, counseling, and opinions to OIG about its programs and operations. OC also reviews audit and evaluation reports for legal sufficiency and compliance with OIG's policies and priorities. Additionally, it reviews drafts of FHFA regulations and policies and prepares comments as appropriate. OC also coordinates with FHFA's Office of General Counsel and manages OIG's responses to requests and appeals made under the Freedom of Information Act (FOIA) and the Privacy Act.

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

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

Additionally, OIG's Equal Employment Opportunity Program is within EO, and it oversees compliance with federal requirements for equal opportunities in the workplace.

Office of Risk Analysis

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

Office of Audits

The Office of Audits (OA) is tasked with designing and conducting independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. For example, the Improper Payments Information Act of 2002 (IPIA), as amended, requires OIG annually to audit FHFA's compliance with IPIA during the prior fiscal year. Additionally, the Federal Information Security Management Act of 2002 (FISMA) directs OIG annually to audit whether FHFA's and OIG's information security programs and practices meet FISMA's security requirements.

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

During the semiannual period, OA commenced a major reorganization effort that is expected to continue well into the next semiannual period. The purpose of the reorganization is to ensure that the skill sets of OIG personnel facilitate the types of performance audits and evaluations that OIG plans to conduct, and to fulfill OIG's strategic vision of producing targeted, relevant, high-quality audit and evaluations products faster and with smaller teams. As part of this reorganization, OA offered a voluntary separation incentive for OA employees and reassigned some OA staff who did not elect to take the separation incentive to other offices that needed their skill sets and experience. The first stage of the reorganization (i.e., the voluntary separation and reassignments) is complete. Going forward, OIG will recruit professional staff with legal, economic, audit, IT security, and other skill sets to further OIG's mission and enhance our capabilities.

Office of Evaluations

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

Office of Investigations

Staffed with special agents, investigators, analysts, prosecutors, and attorney advisors, the Office of Investigations (OI) conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies in connection with programs and operations of the Agency and the GSEs. OI pursues wrongdoers within the Agency and the GSEs as well as individuals and entities that make misrepresentations to the Enterprises in connection with loans that the Enterprises buy or **guarantee**.

OI also takes the lead in responding to referrals made to OIG's hotline through telephone, email, website, and in-person complaints, abiding by all applicable whistleblower protections set forth in the Inspector General Act. Our hotline is staffed by a third-party vendor to protect the anonymity of the callers and provides easy access for individuals to report concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with programs and operations of the Agency. During this reporting period, our hotline has received and analyzed 984 contacts. When OI determines that a full investigation is not warranted, it works closely with OA and OE to determine whether an audit or evaluation project is advisable.

To maximize criminal and civil law enforcement, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Postal Inspection Service, the Federal Bureau of Investigation (FBI), the Department of Housing and Urban Development Office of Inspector General (HUD-OIG), the Secret Service, IRS-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

Office of Compliance and Special Projects

While federal inspectors general (IGs) are often referred to as "watchdogs" for their respective agencies, the Inspector General Act does not authorize an IG to compel its respective agency to adopt new policies or processes or take personnel actions to correct shortcomings identified in audits, evaluations, and investigations of agency programs and operations. Rather, the Act empowers IGs to recommend remedial actions to correct such shortcomings and to track whether the affected agency agrees to adopt and implement the recommended remedial actions. IG recommendations flow from findings premised on facts found during an audit, evaluation, or investigation.

Office of Management and Budget (OMB) *Circular No. A-50 Revised* sets forth an agency's responsibilities once an IG has issued a recommendation. An agency is generally expected to "assign a high priority to the resolution" of the recommendation. Once the agency determines to adopt the recommendation and takes steps to begin the implementation process, the agency reports its decision to the IG, and the IG typically relies on materials and representations from the agency to close the recommendation. Indeed, recommendations may be closed based on an agency's representations alone. As stated in the *Quality Standards for Inspection and Evaluation*, "management notification that an action has been completed within the agreed-on time constitutes reasonable assurance and can be the basis for 'closing' an action for followup purposes."[2]

Stakeholders' respect for and trust in IG reports and recommendations is grounded in the recognition that IGs report the facts, as found, and recommend corrective actions based on those facts. Lacking enforcement authority under the Inspector General Act, IGs necessarily rely on materials and representations made by their respective agencies regarding the implementation of remedial measures.

This OIG has issued more than 300[a] recommendations since it began operations in 2010. Each recommendation was presented for FHFA's consideration; FHFA determined whether to accept each recommendation; and, for those recommendations it accepted, FHFA reported to OIG what actions it had taken, and planned to take, to implement the recommendation. In some cases, recommendations made by this OIG were closed based largely on FHFA's representations that implementation was underway.

In December 2014, this OIG created the Office of Compliance and Special Projects (OCo) to address the reputational risk arising from the practical necessity of closing recommendations based upon representations from the Agency. Staffed with experienced auditors, evaluators, attorneys, and investigators from OIG's offices, OCo is tasked with conducting verification testing of closed recommendations to independently verify whether FHFA has implemented in full the corrective actions it represented to OIG that it intended to take and

[a]Includes non-public recommendations.

publishes the results of its testing in "compliance reviews." These compliance reviews (the first of which has been issued and is discussed below) permit FHFA, Congress, and the public to assess the impact of OIG's recommendations, as well as the efficacy of the Agency's implementation of them. To the best of our knowledge, establishment of this function, within one IG office, appears to be a new approach in the federal IG community.

OCo also plays a support role within OIG. It consults with OA, OE, and OI in the development of recommendations and in decisions to close existing recommendations. OCo developed and now maintains the Recommendation Tracking System, which identifies all OIG recommendations, contains all documentation provided by FHFA in support of its implementation efforts, and provides a comprehensive and up-to-date source of information about OIG recommendations and is available to all OIG staff. To date, OCo has consulted with OA, OE, and OI on whether to close 40 separate recommendations from 16 OIG reports.

At the request of the IG, OCo also performs high-value, short-turnaround special projects. OCo's first such assignment was to respond to a congressional inquiry concerning FHFA's FOIA response process. Its report (see page 23) was based on its factual assessment of the Agency's FOIA process.

Office of Administration

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

Office of Internal Controls and Facilities

The Office of Internal Controls and Facilities (OICF) manages and oversees OIG's workplace safety, facilities, and internal controls.

Snapshot of OIG Accomplishments

April 1, 2015–September 30, 2015

Audit and Evaluation Reports Issued	6
Office of Compliance and Special Projects Reports Issued	2
Nonmonetary Recommendations Made	7
Hotline Contacts	984
OIG Subpoenas Issued	25
Judicial Actions	
Indictments/Charges	95
Arrests	81
Convictions/Pleas	54
Sentencings	65
Suspension/Debarment Referrals	83
OIG Investigations Monetary Results	
Restitution	$72,068,931
Fines/Special Assessments/Seizures	$60,787,725
Total	**$132,856,656**
Regulations Reviewed	7
Responses to Requests Under the Freedom of Information Act	53

OIG's Audit, Evaluation, and Compliance Activities

OIG actively strives to fulfill its mission through audit, evaluation, and compliance projects and reports and through investigations. Our Audit and Evaluation Plan identifies the four risk areas on which our audit and evaluation projects have been focused. In addition to these projects, we completed one additional statutory audit during the period and led an audit on behalf of the Council of Inspectors General on Financial Oversight (CIGFO).

We now discuss our oversight activities during the reporting period by risk area, as well as our other audit activities in which we engaged.

Conservatorship Operations

When then-Secretary of Treasury Henry Paulson announced the conservatorships in September 2008, he explained that the conservatorships were meant to be a "'time out' where we have stabilized the" Enterprises, during which the "new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market." The current FHFA Director has echoed that view in recognizing that conservatorship "cannot and should not be a permanent state" for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the "time out" period for the conservatorships has now entered its eighth year.

Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration over two entities that dominate the secondary mortgage market and the mortgage securitization sector in the United States, and thus affect the entire mortgage finance industry.

The lack of consensus in Congress about the nation's future mortgage finance system and the role, if any, for the Enterprises may mean that the Enterprises will continue to operate under FHFA's conservatorship for a considerably longer period.

While in conservatorship, the Enterprises have required $187.5 billion in financial investment from Treasury to avert their insolvency and, through September 2015, the Enterprises have paid to Treasury approximately $239 billion in dividends on its investment. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the Enterprises have grown in size during conservatorship and, according to FHFA, their combined market share of newly issued **mortgage-backed securities** is approximately 70%.[3] The Enterprises' combined total assets are approximately $5.2 trillion and their combined debt exceeds $5 trillion.[4] Although market conditions have improved and the Enterprises have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge; the future performance of their business segments; the elimination by 2018 of a capital cushion to buffer against losses; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards.[5]

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk.

Oversight of Delegated Matters

Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, 12 U.S.C. § 4617(b)(2)(D), FHFA has delegated authority for many matters, both large and small, to the Enterprises. As conservator, FHFA is ultimately responsible for all decisions made and actions taken by the Enterprises, even with respect to delegated matters, pursuant to its revocable grant of delegated authority, and FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises.

Historically, FHFA's oversight of delegated matters, in its role as conservator, has largely been limited to attendance at Enterprise internal management and board meetings as observers and discussions with Enterprise managers and directors. For the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise delegated actions, including actions taken by the Enterprises to implement conservatorship directives.

Limited FHFA oversight of matters delegated to the Enterprises carries significant risk because of the significant change in the governance environment at the Enterprises caused by the conservatorship. Typically, boards of public companies are vested with the power or duty to manage, direct, or oversee the company's business. Here, FHFA, as conservator, has succeeded to all rights, titles, powers, and privileges of the Enterprises and of any shareholder, officer, or director of the Enterprises, and the Enterprises recognize that their directors "no longer ha[ve] the power or duty to manage, direct or oversee [the] business and affairs" of the Enterprises.[6] In public securities filings, the Enterprises acknowledge that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator.[7]

The Enterprises' PSPAs with Treasury largely nullify typical corporate governance incentives to improve shareholder returns by controlling costs, increasing earnings, and building corporate net worth. Pursuant to the Enterprises' agreements with Treasury, the Enterprises must sweep any excess of net worth (over a small capital reserve) to Treasury, and this mandatory sweep means that controlling costs and increasing net income will not increase the net worth of the Enterprises. As a result, the Enterprises' boards lack the same incentives as boards of most public companies to build capital and enhance stock performance by controlling costs and increasing earnings.

With respect to assessing the reasonableness of board activities, in a report OIG issued on March 11, 2015, OIG assessed the process used by Fannie Mae's Audit Committee of its Board of Directors to fulfill its delegated responsibility to select a Chief Audit Executive (CAE)—the senior executive who heads Internal Audit—which is a critical element of Fannie Mae's risk management controls. OIG found that the Audit Committee's process was haphazard, at best: the Committee waited several months after it learned that the CAE position would soon become vacant before it began a search for possible CAE candidates; ignored a management-prepared Succession Plan for senior executive positions that concluded that no internal candidate across Fannie Mae was "ready now" for the CAE position and a permanent successor would require an "external" candidate; limited its search to internal candidates; relied on Fannie Mae's Chief Human Resources Officer to identify qualified internal candidates even though he and others in senior management concluded, two months earlier, that there was no internal candidate for the CAE position; and selected the Chief Credit Officer of Fannie Mae's largest business unit, the Single-Family Business Group, even though he had not been identified as a candidate for the position in senior management's Succession Plan, lacked the professional audit experience deemed "preferable"

in the CAE Position Description, and was burdened by significant conflicts because of his management responsibilities in the Single-Family Business Group. OIG also found that the Audit Committee did not develop a plan and comprehensive controls to address the candidate's conflicts of interest. (See OIG, *FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive* (EVL-2015-004, March 11, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.)

As a consequence, Fannie Mae hired a candidate who was burdened by conflicts without controls in place to mitigate them, and FHFA, as conservator, exercised no oversight over Fannie Mae's exercise of its delegated responsibility. Even after FHFA, acting in its capacity as regulator, directed the Audit Committee to assess the candidate's conflicts and put compensating controls in place, the Committee declined to complete the requested assessment and adopt controls in a timely manner. For more than one year after the conflicted CAE began work, Fannie Mae's Internal Audit was not in full conformance with governing standards, but FHFA failed to impose any consequences on either the individual Audit Committee directors or on Fannie Mae.

We made five remedial recommendations to address these shortcomings and improve FHFA's oversight of corporate governance at the Enterprises, with which FHFA agreed. Within this reporting period, FHFA:

- Reviewed and revised internal FHFA procedures to ensure that the FHFA Director is informed of significant issues and concerns by FHFA staff on all conservatorship and supervisory matters that require the Director's decision;
- Communicated in writing to Fannie Mae its expectations of enhancements to Audit Committee processes; and
- Directed Fannie Mae to retain an independent third-party consultant to conduct an assessment of the Audit Committee's effectiveness and identify recommendations for improvements, and this assessment is underway.[8]

FHFA's long-standing practice is for FHFA employees to attend Enterprise internal management and board meetings as observers, review materials provided by the Enterprises, and participate in discussions with Enterprise managers and directors. Prior to OIG's issuance of its evaluation report on Fannie Mae's hiring of a new CAE, OIG found that FHFA lacked a sufficiently robust internal communications process to share the information obtained by different FHFA employees with senior FHFA officials regarding matters delegated to the Enterprises. Lack of information sharing impedes the Agency's ability to oversee the Enterprises in carrying out their delegated responsibilities. As that evaluation report discusses, OIG learned from an FHFA employee that he raised concerns regarding the CAE candidate's conflicts of interest to his superiors, but nothing in the record suggested that these concerns were raised with FHFA's then-Acting Director. Had those issues been socialized within senior FHFA management, FHFA senior officials would have been in a position to direct Fannie Mae to assess the candidate's conflicts and put controls in place to mitigate them before he was hired. FHFA committed to enhance its internal processes for information sharing.

Oversight of Non-delegated Matters

As stated above, as conservator, FHFA can retain decisional authority for Enterprise matters as well as revoke prior delegations of authority. Historically, FHFA has retained decisional authority for matters with significant monetary or reputational impact. It is critical for FHFA to develop and put into place strong internal processes for information sharing and analysis to strengthen its decision-making processes.

Under FHFA Director Watt, FHFA has made a number of enhancements to its existing internal

processes to improve the information flow to the FHFA Director with respect to non-delegated matters. However, a recent OIG evaluation report assessing the effectiveness of FHFA's existing budget review and approval process for the Enterprises' annual operating budgets found that additional improvements are warranted.[9]

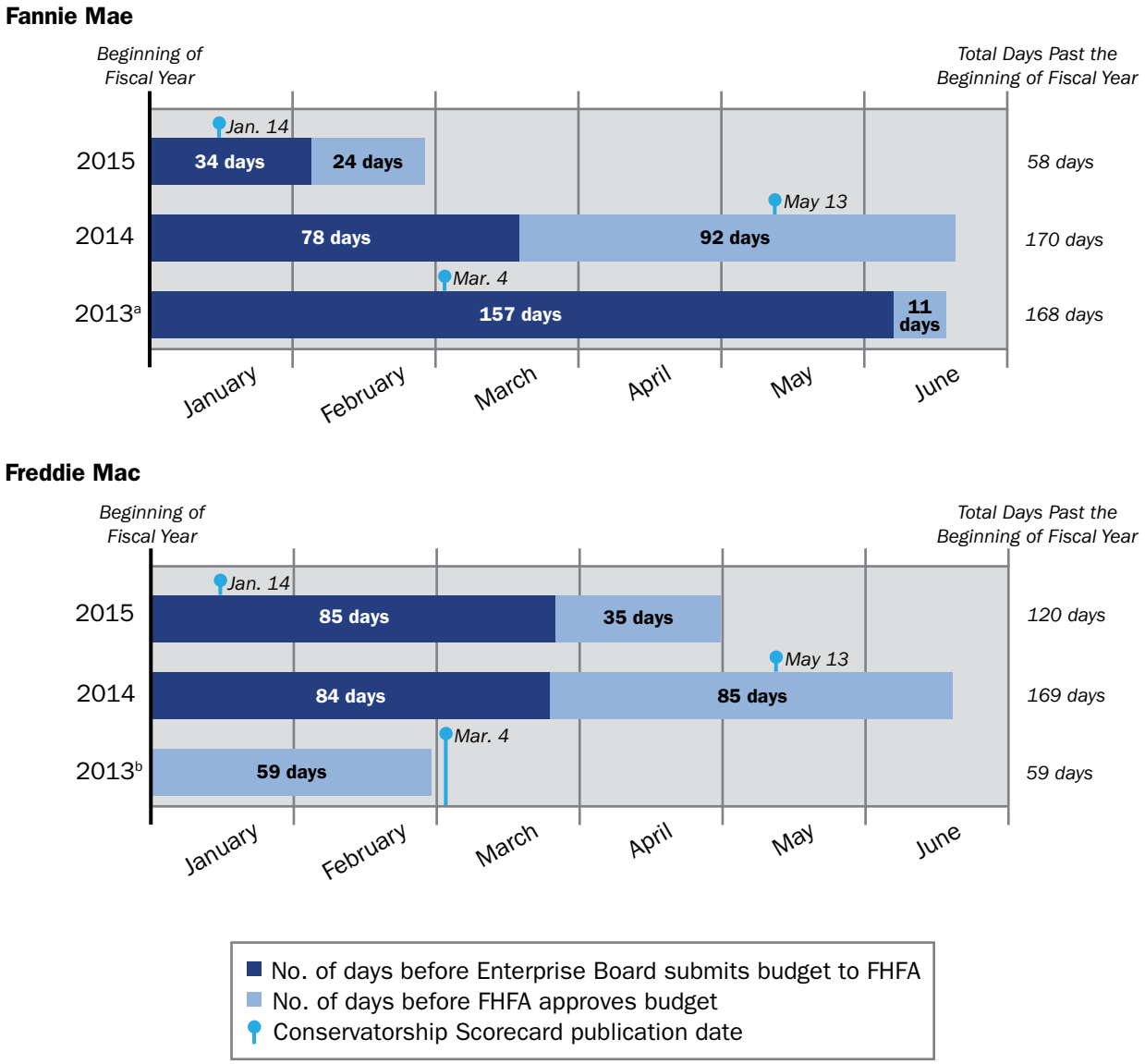
When the conservatorships began, FHFA delegated to the Enterprises the authority to establish their annual operating budgets. In November 2012, FHFA rescinded that delegation and determined to require review and approval of the Enterprises' annual operating budgets. FHFA's stated purpose for retrieving authority to review and approve the Enterprises' budgets was to ensure that the budgets aligned with FHFA's strategic direction and safety and soundness priorities. Between 2012 and 2015, the Enterprises' budgets have grown significantly. In 2012, the last year before FHFA required that the Enterprises obtain its approval for their budgets, the combined spending by both Enterprises totaled $3.9 billion. For fiscal year 2015, FHFA approved Enterprise spending totaling $5.1 billion—an increase of more than $1.2 billion, or about 31%, over 2012 spending. OIG conducted an evaluation to determine whether FHFA's budget approval process has been effective in ensuring that the budgets align with the Agency's strategic initiatives and safety and soundness priorities.

OIG found that FHFA's budget review and approval process failed to achieve FHFA's stated purpose for reasserting its approval authority because of late timing, cursory-level analysis, and inadequate resources. (See OIG, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose* (EVL-2015-006, September 30, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) For the last three years, all Enterprise-proposed operating budgets but one were submitted to FHFA after the start of the fiscal year. As a result, the Enterprises operated without conservator-approved budgets in 2013, 2014, and 2015 for periods ranging from almost two months to almost six months. The timing of budget submissions and approvals is shown in Figure 1 (see page 15). Deficiencies in FHFA's practices prevented FHFA from exercising effective control over Enterprise spending in both amount and direction.

Regarding the quality of FHFA's review of the Enterprises' proposed budgets, OIG found that FHFA's analysis has been largely based on spending totals organized into broad categories by the Enterprises and that high-level summary information significantly limits FHFA's ability to analyze or understand the budgets with any granularity. As a consequence, FHFA's budget review and approval process imposed virtually no budget control on the Enterprises, and FHFA's approval of the budgets endorsed Enterprise spending that was not well understood by FHFA. FHFA's Division of Conservatorship (DOC) recognized that the resources devoted to review and summarize the Enterprises' proposed budgets and to prepare DOC's action recommendation on them were insufficient to perform substantive and critical analyses. OIG determined that FHFA's approval of the Enterprises' budgets, based on a DOC review that was constrained in scope and resources, did not achieve FHFA's stated purpose to ensure that the budgets aligned with FHFA's strategic direction and safety and soundness priorities and created the risk that FHFA approved Enterprise spending that was not well understood by it.

OIG recommended that FHFA: (1) direct each Enterprise to submit its proposed operating budget and supporting materials for the next fiscal year so that FHFA has sufficient time before the fiscal year begins to adequately analyze the proposals; (2) revise the existing budget review process and staff the review

Figure 1. The Timing of Enterprise Board and FHFA Approval, 2013-2015



[a]Fannie Mae submitted its board-approved proposed 2013 operating budget to FHFA on January 25, 2013, and was directed by FHFA that same day to reduce its overall year-over-year budget increase from 14% to below 10%. Fannie Mae revised its proposed 2013 budget and resubmitted the proposed budget on June 6, 2013.
[b]Freddie Mac submitted its proposed budget for 2013 to FHFA on December 21, 2012.

process with employees who have the qualifications and experience needed for critical financial assessments of the proposed Enterprise budgets, which will permit FHFA to determine whether each Enterprise's budget aligns with FHFA's strategic direction and its safety and soundness priorities; (3) set a date certain during the first quarter of 2016 by which FHFA will take final action on each proposed annual operating budget for 2016 and approve the budget by that date; and (4) set a date certain, prior to January 31 of each subsequent fiscal year, by which FHFA will take final action on each proposed annual operating budget and approve the budget by that date.

In its management response, FHFA accepted the first three recommendations and "generally" accepted the fourth. FHFA committed to accelerate the time line for budget submissions for the 2016 budget and to require the Enterprises to submit board-approved budgets by December for fiscal years 2017 and beyond. FHFA also committed to increasing staff resources assigned to budget review and to hiring staff members with relevant technical qualifications and experience. FHFA will advise OIG when it approves the Enterprises' 2016 operating budgets, and has set January 31 of each subsequent year as a target date by which to take final action on the Enterprises' proposed budgets going forward. In the event circumstances justify delay in taking final action by January 31, FHFA will document the reasons for any such delays and take final action on the proposed budgets as soon as practicable. OIG will conduct follow-up activities as appropriate to verify FHFA's completion of those efforts.

Supervision

As noted earlier, FHFA plays a unique role as both conservator and as regulator for the Enterprises and as regulator for the FHLBanks. As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act (12 U.S.C. § 1440) requires each FHLBank to be examined at least annually. The examination function for the FHLBanks descends from the old Federal Home Loan Bank Board, through the Federal Housing Finance Board, to FHFA. As a result, there is a long history of examination practice and examination standards for DBR to draw upon. FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. FHFA's annual examination program assesses Fannie Mae's and Freddie Mac's financial safety and soundness and overall risk management practices through ongoing monitoring, targeted examinations, and risk assessments. Prior to the creation of FHFA, the Enterprises were regulated by the Office of Federal Housing Enterprise Oversight (OFHEO) and OFHEO's first examination took place in 1994. In its *Fiscal Year 2014 Performance and Accountability Report to Congress*, FHFA states, "To ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition." OIG agrees that effective supervision of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness.

OIG has determined that FHFA's administration of its supervision responsibilities continues to be a critical risk. During this semiannual period, OIG released two reports, summarized below, in which we assessed various aspects of FHFA's supervision activities.

Quantity and Quality of Examiners

OIG has previously reported that both DBR and DER lacked a sufficient number of examiners and that the Agency lacked an adequate number of commissioned examiners, both of which placed the efficiency and effectiveness of FHFA's examination program at risk.[10] In response to our reports, FHFA committed to add examiners and has added examiners.

OIG also assessed the quality of FHFA's examiners. As regulator for the Enterprises and the FHLBanks, FHFA has long recognized that its examiners require certain skills and technical knowledge necessary to evaluate the condition and practices specific to them. In our 2011 report, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (EVL-2011-005, September 23, 2011), OIG found, among other things, that two-thirds of FHFA

examiners were not commissioned: they had not completed a structured program of classroom and on-the-job training designed to provide technical competencies and practical examination experience. The Agency acknowledged that commissioned examiners were critical to strengthening the efficiency and effectiveness of its supervision of the regulated entities and that it lacked a sufficient number of commissioned examiners, and it agreed to monitor the development and implementation of an examiner commission program. In 2013, the Agency inaugurated its Housing Finance Examiner Commission Program (HFE Program) that was designed to produce, in the four years that followed, a corps of commissioned examiners for its supervision of the Enterprises and of the FHLBanks.

In its first published compliance review, OIG reported on the results of its verification testing of the Agency's actions to implement FHFA's HFE Program. (See *OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program* (COM-2015-001, July 29, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.)

OIG found that that the HFE Program was not on track to meet its central objective—to produce commissioned examiners who were qualified to lead major risk sections of FHFA's examinations. Specifically, we found that only one of the 66 examiners enrolled in the HFE Program had completed any required on-the-job training assignments during 2014 and early 2015 and that over 20% of the enrolled examiners completed no more than one of the required courses (see Figure 2, below). Many of the enrolled examiners failed to progress in meeting the HFE Program's requirements during its first 19 months of operation, and, therefore, their ability to earn HFE Program commissions within the projected time frame of four years or less is at risk.

OIG recommended that the Agency determine the causes of these shortfalls and implement a strategy to ensure that the HFE Program fulfills its central objective. FHFA accepted the recommendation.

Accurate, Complete, and High-Quality Examinations

Federal financial regulators, including FHFA, have long recognized that comprehensive internal quality control reviews of examinations are a critical internal control to ensure that examination findings and conclusions are adequately supported and to assure the regulator that its examinations are accurate, complete, and of uniform high quality. In October 2011, FHFA's Office of Quality Assurance (OQA), which is tasked with conducting internal reviews of the FHFA divisions that perform the Agency's statutory examination and regulatory functions to

Figure 2. Course Completion as of March 2015 by Enrolled Examiners

Completed Two or More Courses	Completed One Course	Completed No Courses	Total
46	7	7	60[a]

[a]Excludes six examiners who enrolled after October 2014 since they may not have had the opportunity to complete required courses yet.
Source: FHFA records.

enhance the effectiveness of FHFA's supervision, recommended that DER, the division responsible for supervision of the Enterprises, develop and implement a comprehensive quality control process. DER agreed to that recommendation in September 2012. In March 2013, FHFA issued a Supervision Directive announcing that its examinations of its regulated entities—Fannie Mae, Freddie Mac, and the FHLBanks—were subject to a quality control program. DBR, responsible for supervision of the FHLBanks, established procedures for formal internal quality control reviews and conducts such reviews. OIG conducted an evaluation to determine if DER had implemented a formal quality control review process, as recommended by OQA and required by FHFA's March 2013 Directive.

OIG found that almost four years after OQA issued its recommendation in 2011 and more than two years after FHFA issued its directive, DER had not established or implemented a quality control review process for its targeted examinations. (See OIG, *Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations* (EVL-2015-007, September 30, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) While DER committed to develop and implement a quality control review process for its examinations in September 2012, intermittent attempts to do so in 2013 and 2014 were met with strong resistance from DER's staff and senior management. Notwithstanding the lack of a comprehensive quality control review process for DER examinations, FHFA continued to report on its website that it had such a review process in place for all of its examination work. Absent such a review process, FHFA lacks adequate assurance that DER's targeted examinations are accurate, complete, and of uniform high quality, which puts the credibility of its examination program at risk.

On July 28, 2015, after completion of field work on this evaluation, FHFA advised OIG that DER adopted procedures for a quality control review process. OIG has not assessed whether the new procedures satisfy the requirements of FHFA's Directive.

OIG recommended that FHFA: (1) ensure that DER's recently adopted procedures for quality control reviews meet the requirements of the March 2013 Directive and require DER to document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review; and (2) evaluate the effectiveness of the new procedures one year after adoption. FHFA agreed with the recommendations.

Nonbank Sellers

The Enterprises rely heavily on counterparties for a wide array of services, including mortgage sales and servicing. That reliance exposes the Enterprises to counterparty risk—that the counterparty will not meet its contractual obligations. Generally, FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its regulatory responsibilities.

There are numerous counterparty relationships with the Enterprises and each carries risk. One critical counterparty risk is the risk posed by loan originators that are not depository institutions (also called nonbanks). In recent years, the share of Enterprise single-family loan purchases from depository institutions has fallen while the share of purchases from nonbanks has risen. Based on OIG analysis of Enterprise data, from 2010 to 2014 Fannie Mae's share of purchases of single-family loans from non-depository institutions increased from 17% to 49%

($187 billion), while Freddie Mac's share increased from 10% to 38% ($97 billion).

Nonbank sellers are not regulated by federal financial regulatory agencies and may not have the same financial strength, liquidity, or operational capacity needed to meet their obligations to the Enterprises as depository institutions. As a result, there is a risk that a nonbank seller that fails to honor its contractual obligations, such as by selling loans to an Enterprise that do not comply with the Enterprise's lending requirements, would not have sufficient capital or liquidity to honor repurchase demands by the Enterprises for non-compliant loans. FHFA and other financial market participants must address the implications of a changing marketplace, including the attendant risks from nonbanks.

While we did not complete a specific report assessing controls to mitigate the risks from nonbank sellers during this reporting period, work is currently underway and we anticipate that our future report on this will serve to strengthen FHFA's supervisory program and reduce some of the risks.

IT Security

In 2012, then-FBI Director Robert Mueller warned that "there are only two types of companies: those that have been hacked and those that will be. And even they are converging into one category: companies that have been hacked and will be hacked again."[11] Recent cyber security incidents affecting the federal workforce illustrate the scope of potential attacks. The Office of Personnel Management (OPM), which provides personnel services to federal government agencies, said in one incident 4.2 million current and former federal employees had personnel data stolen. In a separate but related incident, OPM said that 21.5 million people had their Social Security numbers and other sensitive information stolen from databases containing background investigation information.

As we explained in a white paper issued earlier this year,[12] cyber attacks from outside an organization come in numerous forms and include attack vehicles such as malicious software aimed at gaining control of a system or efforts compromising the availability of a system or network by overloading the network. Broadly speaking, external cyber attackers can be grouped into three categories: "hacktivists," who use digital tools to promote a political or social agenda; nation states; and criminals who may directly attack an organization's system, or may attack indirectly through a third party such as a vendor, contractor, or counterparty.

IT vulnerabilities also can come from inside an organization. Employees and contractors, current or former, with authorized access to an organization's network or data can exceed or misuse access and compromise the confidentiality, integrity, or availability of the organization's information or information systems. Even when an organization builds high barriers to protect its electronic assets from outsiders, it may have few protections against insiders. Insider threats can be particularly potent because insiders typically have greater access to sensitive information, a better understanding of internal processes, and an understanding of potential weaknesses in controls.

Larry Zelvin, the former Director of the National Cybersecurity and Communications Integration Center at the Department of Homeland Security, opined at a cyber security roundtable that, of the 16 critical infrastructure sectors in this country, "finance probably wins the cyber security threat award." He called the industry "a massive target" because it is "where the money is."[13] The Enterprises own or guarantee $5 trillion in mortgage assets supporting the U.S. mortgage market. As part of their processes

to guarantee or purchase loans, the Enterprises receive a substantial amount of information about mortgage borrowers, including financial data and personally identifiable information. Fannie Mae and Freddie Mac have been the subject of cyber attacks, although none caused significant harm. Similarly, the FHLBanks and their Office of Finance have not experienced material losses related to cyber attacks or other breaches. All of the entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their information systems may be vulnerable to penetration. In this regard, the cyber threat to these entities is no different from the threat to other major financial institutions.

We completed two audits during the reporting period assessing the existing information security programs at OIG and at FHFA. (See OIG, *Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program – 2015* (AUD-2015-003, September 9, 2015); and OIG, *Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2015* (AUD-2015-002, September 9, 2015), at www.fhfaoig.gov/Reports/AuditsAndEvaluations.) Both audits were conducted in accordance with FISMA. OIG contracted with an independent public accounting firm, Kearney & Company, to perform separate FISMA evaluations of FHFA's and OIG's information security programs because FHFA and OIG maintain separate IT infrastructures. The objectives of these audits were to evaluate FHFA's and OIG's information security programs and practices, including compliance with FISMA and related information security policies, procedures, standards, and guidelines. Because information in these reports could be abused to circumvent FHFA's and OIG's internal controls, they have not been released publicly.

Statutory, Cooperative, and Stakeholder Reports and Responses

In addition to OIG's risk-based audit, evaluation, and compliance work, OIG also completed other work required by statute, incident to cooperative efforts, and in response to stakeholder requests.

Statutory Audit: Possible Improper Payments

Federal agencies regularly make payments to program beneficiaries (or on behalf of them), grantees, vendors, and contractors. Some of these payments may be "improper" in one or more respects. For example, they may be made to the wrong recipients, in the wrong amounts, at the wrong times, or for the wrong reasons. The IPIA as amended requires federal agencies to periodically review, determine, estimate, and report programs and activities that may be susceptible to significant improper payments. Additionally, for improper payments estimated in excess of the greater of 2.5% of program outlay or $10 million, an agency must report the potential actions it is taking to reduce and recapture improper payments.

OIG is required to review FHFA's improper payment reporting in its annual Performance and Accountability Report (PAR) to determine whether FHFA is in compliance with IPIA and to report this and other findings. However, not all IPIA requirements are applicable to FHFA. In fact, most requirements of IPIA and implementing guidance are not applicable to the Agency, as noted in Figure 3 (see page 21).

After reviewing applicable statutes, executive orders, and other compliance requirements related to improper payments; reviewing various GAO audit reports; interviewing key FHFA officials; obtaining

sufficient and appropriate evidence regarding compliance actions taken; and reviewing and assessing improper payment element requirements and related activities, OIG concluded that FHFA complied with the applicable statutory improper payment requirements, as well as related OMB criteria. (See OIG, *FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2014* (AUD-2015-001, May 14, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.)

Cooperative Effort: CIGFO Audit

OIG is a member of CIGFO, which provides oversight of the Financial Stability Oversight Council (FSOC). By statute, CIGFO is authorized to evaluate the effectiveness and internal operations of FSOC, and it has been fulfilling this role by conducting annual audits of FSOC. CIGFO members (see Figure 4, page 22) submit proposed audit topics for consideration, and CIGFO selects the audit topic. While one CIGFO member leads the audit, the audit report only issues when it has been reviewed and approved by CIGFO.

OIG proposed to CIGFO that its annual audit should assess the extent to which FSOC is monitoring interest rate risk to the financial system. Interest rate risk is the exposure of an individual's or an institution's financial condition to changing interest rates and this risk affects every financial institution to some degree. Interest rate risk has been identified as a recurring potential threat in FSOC's annual reports since 2011. CIGFO approved OIG's proposed audit and convened a Working Group, led by OIG, to conduct the audit and CIGFO issued the audit report on July 27, 2015. (See CIGFO, *Audit of the Financial Stability Oversight Council's Monitoring*

Figure 3. FHFA's Compliance Under IPIA, As Amended, for Fiscal Year 2014

Compliant Element	FHFA Action
The agency has published an annual PAR or Annual Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying materials required under guidance of OMB on the agency website.	FHFA published its 2014 PAR and included relevant information pertaining to improper payments.
The agency has conducted a program-specific risk assessment for each program or activity that conforms with the IPIA, as amended (31 U.S.C. § 3321 note) (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published improper payments estimates for programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published programmatic corrective action plans in its PAR or AFR (if required).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has published, and is meeting, improper payments reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	FHFA determined that this section of the IPIA, as amended, is not applicable.
The agency has reported a gross improper payment rate of less than 10% for each program and activity for which an estimate was obtained and published in its PAR or AFR.	FHFA determined that this section of the IPIA, as amended, is not applicable.

Figure 4. FSOC Council Membership[14]

Federal and Independent Members	State Members
• Secretary of Treasury, Chairperson (v) • Chairman of the Board of Governors of the Federal Reserve System (v) • Comptroller of the Currency (v) • Director of the Consumer Financial Protection Bureau (v) • Chairman of the Securities and Exchange Commission (SEC) (v) • Chairperson of the Federal Deposit Insurance Corporation (FDIC) (v) • Chairperson of the Commodity Futures Trading Commission (v) • Director of FHFA (v) • Chairman of the National Credit Union Administration Board (v) • Director of the Office of Financial Research • Director of the Federal Insurance Office • Independent member with insurance expertise (v) (v) Indicates Voting Member	• State Insurance Commissioner • State Banking Supervisor • State Securities Commissioner

of Interest Rate Risk to the Financial System (CIGFO-2015-001, July 27, 2015), online at www.treasury.gov/about/organizational-structure/ig/Pages/Council-of-Inspectors-General-on-Financial-Oversight.aspx.)

FSOC monitors interest rate risk on an ongoing basis by facilitating the sharing of financial expertise and information among its members and member agencies and by making annual report recommendations. However, the CIGFO audit found that the lack of public documentation explaining FSOC's decisions to remove recommendations with respect to interest rate risk made in prior annual reports creates a lack of transparency around the process for removing recommendations.

CIGFO recommended that FSOC document in its annual reports to Congress its rationale for removing prior year recommendations related to interest rate risk. (While the recommendation included in the report relates specifically to interest rate risk, it may be applied, as applicable, to other annual report recommendations.) The recommendation, if adopted and implemented, will increase transparency and accountability in FSOC's annual reports.

In its written response, FSOC stated that its annual reports are designed to focus the attention of regulators, policymakers, Congress, and members of the public on potential risks to financial stability and how those risks should be addressed, rather than describing all market developments and potential risk hypotheses. However, FSOC added that it remains committed to providing as much transparency as possible regarding its work, and to the extent that it no longer recommends action related to a risk area identified in a prior annual report, it agreed to consider how to provide additional information regarding its analysis.

The CIGFO audit noted that FSOC did not specifically agree or disagree with the recommendation in its response. However, it stated that if FSOC provides additional information regarding its rationale for removing prior recommendations in its subsequent annual reports, such FSOC action would be responsive to the audit recommendation.

Responses to Stakeholder Requests

Report Responsive to Congressional Request Regarding Involvement of Non-career Officials in FHFA's Responses to FOIA Requests

The Senate Committee on Homeland Security and Government Affairs asked a number of IG offices to assess whether non-career officials (i.e., political appointees and employees hired under Schedule C of the excepted service) were involved in the respective agency's FOIA 5 U.S.C. § 552 process and, if so, whether their involvement resulted in any undue delay in the agency's response to a FOIA request or the withholding of any document or portion of a document that would have been provided but for their involvement.

OIG interviewed the officials responsible for the Agency's FOIA program. In separate interviews, FHFA's General Counsel, Chief FOIA Officer, and FOIA Officer (all career officials) each stated, unequivocally, that to the best of his or her knowledge, non-career officials have never attempted to involve themselves in the Agency's FOIA process. Each stated that non-career officials never caused or attempted to cause them to redact, withhold, or delay the release of any information through the FOIA process. OIG tested the assertions of these Agency officials by determining the identities of all FHFA non-career officials during the relevant period and reviewing a sample of 20 FOIA requests that were partially denied or denied during the service of non-career officials at FHFA. It found no evidence that non-career officials influenced or attempted to influence FHFA's FOIA office's decisions in these cases or caused any delays in the processing of the requests. OIG also analyzed all of the FOIA-related litigation brought against FHFA to date. None of the plaintiffs in these cases alleged that they were denied information due to the involvement of non-career officials in the Agency's FOIA process. OIG examined the pleadings, papers, and decisions in these cases and found no allegations, statements, or judicial findings of fact that suggested that non-career officials were involved, or attempted to be involved, with the Agency's FOIA process. For those reasons, OIG concluded that non-career officials had not been involved in FHFA's FOIA process. (See OIG, *FHFA Non-Career Employees Have Not Been Involved in FHFA's Freedom of Information Act Process* (COM-2015-002, August 6, 2015), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations.)

Response to Congressional Request Relating to FHFA's Oversight of Enterprises' Internal Controls Over Maintenance by Third-Party Contractors of Real Estate Owned Properties in the Enterprises' Inventories

In July 2015, OIG responded to a congressional request for an assessment of FHFA's oversight of the Enterprises' internal controls over contractors' maintenance of **real estate owned (REO)** properties in their inventories. (See Letter to the Honorable Elijah E. Cummings, dated July 24, 2015, online at www.fhfaoig.gov/Reports/AdditionalActionItems.) OIG conducted an audit survey to: (1) understand the requirements imposed by the Enterprises on their REO vendors for the initial and ongoing maintenance of REO properties and the differences, if any, in these requirements between the Enterprises; (2) determine whether the Enterprises adopted internal controls to monitor work performed by their vendors; and (3) assess whether the Enterprises took remedial actions against their REO vendors when their internal controls identified deficiencies.

OIG found that the Enterprises have announced virtually identical strategic goals for the maintenance of their REO properties: to secure and maintain them so that they are appealing to prospective buyers and ready for sale. Both Enterprises retain vendors to maintain their REO properties and impose standards for the maintenance of such properties in their respective vendor contracts. OIG found that,

pursuant to their strategic goals, both Enterprises impose contractual requirements on their REO vendors to maintain all REO properties, regardless of their location, without regard to race, color, religion, sex, handicap, familial status, or national origin. Similarly, contracts used by both Enterprises require REO maintenance vendors to comply with anti-discrimination laws, including the Fair Housing Act.

The Enterprises' vendor contracts also require vendors to perform defined "initial" and "ongoing" maintenance activities. Both Enterprises confirmed that contract requirements, standards, and timing metrics are reinforced through corresponding mandatory training provided by the Enterprises to their vendors and supplemental internal controls. These controls include: broker inspection of vendors, establishment of complaint hotlines, quality control inspections performed by independent inspection contractors, internal Enterprise review of independent quality control inspection reports, and onsite assessments of REO properties by Enterprise employees. Through implementation of these controls, both Enterprises have identified material deficiencies with the maintenance performed by several REO vendors and imposed remedial measures.

Recommendations

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

OIG's Investigations

This OIG is vested with statutory law enforcement authority, which is exercised by OI. OI is staffed by highly trained law enforcement officers, investigative counsel, forensic auditors, and support staff who conduct investigations related to programs overseen by FHFA. Depending on the type of misconduct uncovered during OIG investigations, the investigations may result in criminal charges, civil complaints, and/or administrative sanctions and decisions. Criminal charges filed against individuals or entities may result in plea agreements or trials, incarceration, restitution, fines, and penalties. Civil claims can lead to settlements or verdicts with restitution, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs. Five OIG investigative counsels have been appointed as Special Assistant U.S. Attorneys (SAUSA) in several judicial districts throughout the country and have prosecuted through guilty plea or trial criminal cases arising from OI's investigations in those districts. During the semiannual period, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 95 individuals, the conviction of 54 individuals, and 65 sentencings, as well as court-ordered fines and restitution awards. Figure 5 (see right) summarizes the results obtained during this reporting period from our investigative efforts.

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

Investigations: Civil Cases

During the reporting period, OIG continued to actively participate in the Residential Mortgage-Backed Securities (RMBS) Working Group. Established by the President in 2012 to investigate individuals and entities responsible for misconduct involving the pooling of mortgage loans and sale of RMBS, the Working Group is a collaborative effort of dozens of federal and state law enforcement agencies. Since the inception of the RMBS Working Group, DOJ has negotiated civil settlements worth over $32 billion. Among other things, we have reviewed evidence produced by various parties for members of the Working Group, assisted with witness interviews, provided strategic litigation advice, and briefed other law enforcement agencies on the operations of the RMBS market.

We continue to work closely with U.S. Attorneys' offices around the country and with state attorneys general to investigate allegations of fraud committed by financial institutions and individuals in connection with RMBS.

Figure 5. Prosecutions and Recoveries from April 1, 2015, Through September 30, 2015

	Criminal Investigations	Civil Investigations
Fines[a]	$60,787,725	$-
Settlements	$-	$-
Restitutions	$72,068,931	$-
Total	**$132,856,656**	**$-**
Charges	95	
Convictions	54	
Sentencings	65	
Trials	7	

[a]Fines include criminal fines, seizures, forfeiture and special assessments, and civil fines imposed by federal court.

Investigations: Criminal Cases

RMBS Schemes

In this type of fraudulent conspiracy, traders fraudulently manipulate the buying and selling prices of RMBS **bonds**, causing customers to pay more to purchase the RMBS securities and to receive less when they sell RMBS securities. Below we provide one highlight of OIG investigative work during this reporting period in this category. (See Appendix L for a summary of publicly reportable investigative outcomes in this category.)

Indictment of Nomura Bond Traders

Three former bond traders were indicted in a 10-count indictment alleging fraud in connection with sales of RMBS bonds. The indictment alleges that the three former supervisory traders, who sat on the RMBS desk at Nomura Securities International, Inc. (Nomura) in New York, engaged in a conspiracy to defraud Nomura customers. The indictment alleges that Nomura traders falsely stated the prices of RMBS bonds to their customers. When a customer agreed to buy an RMBS bond, the traders falsely inflated the price that Nomura paid for the bond, thereby inducing the customer to pay a higher overall price. Alternatively, when a customer negotiated to sell an RMBS bond, the traders fraudulently deflated the price at which Nomura could sell the bond, thereby inducing the customer to accept a lower overall price. The indictment further alleges these actions provided Nomura, and the indicted traders, an extra and unearned profit at the customer's expense. According to the indictment, the three co-conspirators also trained their subordinates to lie to customers and provided them with the language to use to deceive customers. The indictment further alleges that defendants created fictitious third parties in an effort to increase their profits.

The three defendants were indicted on September 3, 2015.

Condo Conversion and Builder Bailout Schemes

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

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

Trial Victory in South Florida Condominium Case

In an elaborate scheme, developers of multiple condominium conversion projects across South Florida offered incentives, including payment of cash-to-close, guaranteed rent and condo fees, and cash rebates to so-called "investors." Many of these purchasers were inexperienced in financial matters and could not understand English. For example, buyers at one condominium development in Palm Beach County could purchase condominium units for $340,000 without putting up a penny of their own money and receive as much as $25,000 cash back after closing. The developers also promised to pay the difference between the unit's rental income and the buyer's monthly mortgage payment and condo fees for up to two years.

The incentives were concealed from the lenders that provided the mortgages, and many of the

fraudulently obtained mortgage loans were later sold to Freddie Mac. The conspirators included real estate developers, a lawyer/title agent, real estate brokers, a loan officer, and others. One defendant was employed as a loan officer at a major bank, and was paid approximately $2,000 cash per loan approved to "look the other way."

After a short time, the developers stopped paying the guaranteed rent and condo fees, and the buyers began to **default** on their mortgages. Local press reported at the time a foreclosure rate exceeding 70% at the condominium complex.

Multiple individuals have been charged in this case. In one instance, an indictment and a superseding indictment were returned charging four individuals with conspiracy and bank fraud. Three of those four charged pled guilty before trial. Trial began against the developer in April 2015. The developer claimed he relied on legal advice from his attorney/title agent, but that individual testified against him at trial. After 10 trial days, the jury rejected the advice-of-counsel defense and returned a guilty verdict, finding the developer guilty of conspiracy to commit bank fraud. The court subsequently sentenced him to 3

> To: [redacted]
> Subject: Fw: [redacted] Disbursement
> From: rashmi@fap-law.com
> Date: Mon, 24 Dec 2007 20:41:51 +0000
>
>
>
> Sent via BlackBerry by AT&T
>
> -----Original Message-----
> From: "Jordana Ende" <Jordana@eThreeRealty.com>
>
> Date: Mon, 24 Dec 2007 15:03:35
> To:"'Rashmi'" <Rashmi@fap-law.com>
> Cc:"'eli riesel'" <eriesel@theberkowitzcompanies.com>
> Subject: [redacted] Disbursement
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> Rashmi –
>
> Upon funding (which I believe will occur later this week), please disburse the $78,499.80 beneficial interest disbursement as follows:
>
> $71,000 to [redacted]
> $7,499.80 Reserve for Rental Guarantee
>
> Please confirm that this is how the funds will be disbursed.
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>
> Jordana Ende
> eThree Realty, Inc.
> [redacted] | Fort Lauderdale, FL 33309

1

AO388-C
GOVERNMENT EXHIBIT
CASE NO. 14-80067
EXHIBIT NO. 73A

Evidence presented at trial: An email from the real estate broker to an attorney/escrow agent, two of the co-conspirators. The real estate developer on trial is cc'd.

years in prison, forfeiture of approximately $500,000 in profits, and the payment of approximately $12.5 million in restitution.

To date, the investigation has resulted in eight convictions—seven by guilty plea—and restitution orders totaling approximately $18 million. This case was a referral to OIG by Freddie Mac's Financial Fraud Investigation Unit, after which OIG partnered with the FBI. An OI investigative counsel acting as an SAUSA handled the prosecution of all defendants in this investigation from the initiation of criminal charges through guilty pleas, trial, and sentencing.

Two Indicted in Elaborate Condominium Scheme Resulting in Losses to the Enterprises

On April 29, 2015, two individuals were indicted on charges of conspiracy to commit wire fraud and wire fraud affecting a financial institution. The indictment alleged that Osbel Sanchez and David Cevallos, acting in concert with others, bought or facilitated the sales of condominiums to **straw buyers** at inflated prices. According to the indictment, the inflated prices allowed the sellers in the transactions, also co-conspirators, to sell the condominiums for more than their market value and sales proceeds were allegedly divided among the participants in the scheme.

The indictment charges that the conspirators obtained mortgage loans from various financial institutions using fraudulent mortgage applications to fund the purchase of the condominiums. The indictment further alleges the mortgage applications omitted material facts, including the existence of straw buyers and the payment of kickbacks to buyers, brokers, and other real estate professionals and third-party entities involved in the scheme. According to the indictment, the scheme resulted in approximately $4.2 million in losses to financial institutions including the Enterprises. A trial date has not yet been set.

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

Investigations in this category involve a variety of schemes that target Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below we provide highlights of OIG investigative work during this reporting period in this category. (See Appendix F for a summary of publicly reportable investigative outcomes in this category.)

Fraud Involving the FHLBanks' Affordable Housing Fund

The FHLBank of Dallas provides Affordable Housing Program (AHP) funds to eligible entities through a competitive grant funds program created by Congress to address local housing needs. The indictment alleged that, from February 2010 through August 2012, Marlene Williams, Executive Director of a nonprofit organization, Fiscal Integrity & Economic Development Association, Inc. (FIED), and Kayla Lindsey, Chief Financial Officer of FIED, applied to the FHLBank of Dallas for AHP funds through Trustmark Bank, an FHLBank of Dallas member bank. FIED was approved for, and received, the AHP funds.

According to the indictment, Williams and Lindsey submitted, or facilitated the submission of, inflated contractor invoices to the FHLBank of Dallas in order to carry out their scheme. It alleged that Williams and Lindsey convinced home repair contractors to inflate their invoices to pay for fees that were allegedly due to Williams and Lindsey for working on the grants. The indictment charged that the contractors kicked back approximately 20% of the AHP grant funds they received for repairs to Williams and Lindsey or their affiliated business.

On September 10, 2015, Williams pled guilty to a conspiracy to make false statements to the FHLBank

of Dallas and is scheduled to be sentenced on November 19, 2015. Lindsey is scheduled for trial on December 7, 2015.

Loan Origination Schemes

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

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

Two Individuals Sentenced and One Pleads Guilty in Maryland Loan Origination Scheme

Kevin Campbell, an investor in Baltimore residential real estate and Jonathan Lee Miles, a loan officer for a local mortgage brokerage, caused false information to be provided to mortgage lenders to enable prospective purchasers to qualify for 18 home mortgage loans on properties that they could not actually afford. In a related case, from 2009 through 2010, Alberic Okou Agodio recruited straw buyers to purchase almost three dozen row houses in Baltimore from Campbell at prices far in excess of their actual market value. Agodio secured financing of approximately $3.8 million through Miles on behalf of the straw buyers, with loans for which Campbell paid $1.2 million to Agodio, which Agodio then used to pay for the down payments and closing costs, commissions to individuals who allowed him to falsely designate them as purchasers ("straw buyers"), referral fees to individuals who referred other straw buyers to him, and to compensate himself. In his agreement to plead guilty to conspiracy, wire fraud affecting a financial institution, and aggravated identity theft, Agodio admitted that he falsely represented that the straw buyers would use the properties as their primary residences and provided fraudulent earnings and bank statements for the straw buyers to document the false representations in the loan applications. Eventually, all the loans went into default.

In early September 2015, Miles and Campbell were sentenced to 18 and 19 months of incarceration, respectively; 5 years of supervised release; and ordered to pay Fannie Mae, Freddie Mac, and other institutions roughly $1.2 million. On July 21, 2015, Agodio pled guilty and is currently awaiting sentencing.

Loan Origination Scheme Caused Over $4 Million in Losses

Lawrence Day, a recruiter, Donald Mattox, a home builder/seller, and Michael Edwards, a loan officer, were indicted in federal court for conspiring with others to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material facts in HUD-1 Settlement Statements, loan applications, and other loan documents.

According to the indictment, the defendants caused fraudulent loan documents to be submitted to lending institutions knowing that the lending institutions would rely upon the materially fraudulent representations when funding the mortgage loans. Day, Mattox, Edwards, and others allegedly distributed portions of the loan proceeds to the conspirators for personal gain causing a loss of approximately $4.8 million to Fannie Mae and other financial institutions.

During this reporting period, Day, Mattox, and Edwards pled guilty. Day was sentenced to 90 months in prison, 3 years of supervised release, and ordered to pay $3,108,998 in restitution. Edwards was sentenced to 46 months in prison, 1 year of supervised release, and ordered to pay $1,300,402 in restitution. Mattox is awaiting sentencing.

Short Sale Schemes

Short sales occur when a lender allows a borrower who is **"underwater"** on his/her loan—that is, the borrower owes more than the property securing the loan is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower intentionally misrepresenting or not disclosing material facts to induce a lender to agree to a short sale to which it would not otherwise agree. Below are some highlights of OIG investigative work during this reporting period in this category. (See Appendix H for a summary of publicly reportable investigative outcomes in this category.)

Foreclosure Scam, Drug Trafficking, and Money Laundering Scheme, Texas

On September 10, 2015, two individuals were indicted on charges of bank fraud, conspiracy to commit bank fraud, and aggravated identity theft for their roles in a foreclosure scam.

According to the indictment, the defendants allegedly fraudulently deeded to themselves properties that were vacant and going through the foreclosure process. The true owners were not aware that the defendants had allegedly stolen their properties. Once the homes were fraudulently recorded in the defendants' names, the defendants allegedly filed lawsuits that falsely asserted they were the owners of the properties. As a result of the lawsuits, the foreclosure proceedings were temporarily stopped. The defendants then allegedly tried to convince the foreclosing financial institutions, including Fannie Mae, to permit the defendants to sell the properties in short sales.

During the investigation, OIG uncovered evidence of additional criminal activity, including money laundering and trafficking of stolen credit cards and illegal drugs, involving these two individuals, as well as four other who were also indicted on September 10, 2015.

Loan Modification and Property Disposition Schemes

These schemes prey on homeowners who are in default or are at risk of imminent default on their home loans. Businesses advertise that they can secure loan modifications, provided that the homeowners pay significant **upfront fees**. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below are some highlights of OIG investigative work during this reporting period in this category. (See Appendix I for a summary of publicly reportable investigative outcomes in this category.)

Three Convicted, Sentenced in California Loan Modification Case

Between 2012 and 2014, Christopher George, a co-owner of 21st Century, Crystal Buck, and Albert DiRoberto, both sales employees at 21st Century, along with eight other individuals were indicted for a scheme to defraud more than 4,000 financially distressed homeowners of more than $7 million by having them pay for services, including loan modifications, which were never provided.

According to the indictment, the 11 defendants contacted distressed homeowners and made numerous false or misleading statements, including that 21st Century: (1) was operating through a federal government program; (2) would be able to obtain new mortgages with specific interest rates and reduced payments; and (3) would negotiate loan

modifications with their lenders. The indictment alleged that, once hired, 21st Century regularly instructed its clients to stop making mortgage payments and to cut off all contact with their lenders because 21st Century would negotiate the modifications. Many of these loans had been purchased by Fannie Mae and Freddie Mac.

After a five-week jury trial, three defendants were found guilty for their roles in the scheme and ultimately sentenced on September 28, 2015. George was sentenced to 20 years in prison, 5 years of supervised release, and ordered to pay $7,065,117 in restitution. Buck and DiRoberto were each sentenced to 5 years in prison.

The remaining eight defendants referenced pled guilty during previous reporting cycles; two of these defendants were sentenced and the remaining six defendants await sentencing. An additional defendant was indicted in September 2015.

Loan Modification, Short Sale, Origination Fraud Scheme

In December 2014, Joseph DiValli, a loan officer, was indicted for conspiring with others, including unlicensed title agents, an attorney, another loan officer, and a real estate agent to cause lenders to release liens on encumbered properties via fraudulently arranged short sale transactions. DiValli's co-conspirators allegedly recruited straw buyers and submitted false loan applications and documents to obtain mortgages. DiValli fraudulently induced a lender to secure a modification of a loan on the loan officer's personal residence. As a result of misconduct by DiValli and co-conspirators, lenders accepted proceeds of purported short sales in full satisfaction of existing mortgages, and the losses to these lenders as a result of the scheme allegedly totaled approximately $2 million. Fannie Mae purchased or secured over 100 loans from the affected lenders.

During this reporting period, DiValli pled guilty to conspiracy to commit wire fraud, wire fraud, and tax evasion. He is awaiting sentencing in federal court. In addition, during this reporting period five of the co-conspirators, Delio Coutinho, Amedeo Gaglioti, Carmine Fusco, Christopher Ju, and Kenneth Sweetman received sentences ranging from supervised release to 36 months in prison and were ordered to pay restitution.

GETTING THE MONEY

IF THEY SAY {DO WE HAVE TO PAY THE $3,000 RIGHT AWAY?} THEN SAY (WELL YOU WANT ME TO GET STARTED MODIFYING YOUR LOAN RIGHT AWAY, DON'T YOU?) THEN GET BACK TO SETTING THE APT. DO NOT LET THEM CONTROL THE CONVERSATION ....

IF THEY SAY THEY DON'T HAVE THE MONEY THEN SAY (HOW MANNY MONTHS BEHIND DID YOU SAY YOU WERE? AND HOW MUCH IS YOUR MONTHLY PAYMENTS? WOW! AND WE ONLY CHARGE $3,000 , {GET BACK TO SETTING THE APT.

Evidence presented at trial—a script given to employees of 21st Century in order to secure victims as clients.

Property Management and REO Schemes

The wave of foreclosures following the housing crisis left the Enterprises with an inventory of REO properties (i.e., properties that the Enterprises took back in foreclosure, possess, and are responsible to maintain). This REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.

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

Three Charged in Arizona REO Scheme

On August 26, 2015, Daphne Iatridis, her husband Arthur Telles, and son Brendyn Iatridis, all real estate agents, were indicted by a federal grand jury for their roles in a fraud scheme involving Fannie Mae REO properties. According to the indictment, Iatridis, a Fannie Mae REO-approved agent, along with her husband and son, conspired to purchase 28 Fannie Mae REO properties in violation of Fannie Mae rules by using the identities of others. The indictment further alleged that, among other things, the co-conspirators purchased the REO properties at a discounted price, overcharged Fannie Mae for maintenance and expenses, and rented the REO properties for personal benefit.

Adverse Possession Schemes

Adverse possession schemes use illegal adverse possession (also known as "home squatting") or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. Below we provide highlights of OIG investigative work during this reporting period in this category. (See Appendix K for a summary of publicly reportable investigative outcomes in this category.)

Four Charged in Adverse Possession Scheme

On June 30, 2015, David Farr, Torrez Moore, Raymond Trimble, and Arshad Thomas were charged by criminal complaint for allegedly filing false title documents for six properties with the Cook County Recorder of Deeds and using friends and family members to occupy the properties unlawfully. Five of the six properties were Fannie Mae REO properties.

The four defendants are allegedly sovereign citizens who do not recognize the authority of federal or state law.

Multi-family Schemes

Investigations in this category involve a variety of fraud schemes that relate to loans issued by the Enterprises to finance multi-family apartment buildings. A multi-family building is a building that has four or more units available for rent. Below are highlights of OIG investigative work during this reporting period in this category. (See Appendix M for a summary of publicly reportable investigative outcomes in this category.)

Fraudulent Multi-family Loan/Extortion Plea, Carbondale, Illinois

In May 2015, Maximus Yaney, an owner of multi-family properties in Carbondale, Illinois, was indicted for allegedly acting in concert with his employees, including James Russell, for conspiring to commit fraud to obtain a loan to purchase an apartment building. The indictment alleged that Yaney used one of his companies, H.G. Capital, LLC, to purchase an apartment building for $2,710,000 and then caused H.G. Capital to sell the building to another company that he owned for $9,780,000. To obtain the necessary financing, Yaney allegedly

made material misrepresentations and omissions to lenders, including failure to disclose his ownership in both companies and submitting false information regarding the rental status of apartments in the building. As a result of the alleged fraud, Fannie Mae lost $6,602,226 and one of its delegated **underwriting** servicers, Greystone Servicing, lost $1,146,793.

During this reporting period, both Yaney and Russell were sentenced. Yaney was sentenced to 18 months in prison. Prior to sentencing, Yaney made full restitution payments to Fannie Mae and Greystone Servicing. Russell was sentenced to 18 months in prison and ordered to pay $204,484 in restitution.

Outreach

OIG develops public-private partnerships where appropriate. We delivered 43 fraud awareness briefings to different audiences to raise awareness of OIG's law enforcement mission and of fraud schemes targeting FHFA programs.

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

During this reporting period OIG worked with additional local and state partners including the Stanislaus County California District Attorney's Office, Ventura County California District Attorney's Office, King County Washington District Attorney's Office, Hudson County Prosecutor's Office, Florida Office of Financial Regulation, Broward County Sheriff's Office, Florida Department of Law Enforcement, Broward County State Attorney's Office, Chicago Police Department, Cook County State Attorney's Office, Wayne County Prosecutor's Office, DuPage County State Attorney's Office, Burr Ridge Police Department, Elk Grove Village Police Department, Flossmoor Police Department, and the attorneys general of California, New York, New Jersey, Florida, and Mississippi.

Investigations: Administrative Actions

Many OIG investigations result in administrative referrals to other entities for action based upon the results of OI's investigative work. For example, a guilty plea of participation in a bank fraud scheme by a licensed real estate agent or attorney or certified public accountant may result in a referral to a state licensing body for disciplinary actions. By the same token, participation by a real estate professional in mortgage fraud may result in a referral to another federal agency for possible suspension or debarment from participation in federal programs. During this reporting period, OIG made 83 referrals for suspension and debarment.

Suspended Counterparty Referrals

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

counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, covered misconduct means:

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

During this reporting period, OIG made 40 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program.

A summary of OIG's referrals during the reporting period is captured in Figure 6 (see below).

Figure 6. Administrative Actions from April 1, 2015, Through September 30, 2015

Administrative Actions	
Suspension/Debarment Referrals	83
Referral to FHFA Suspended Counterparty Program	40

OIG's Regulatory Activities and Outreach

Regulatory Activities

Pursuant to the Inspector General Act, OIG is tasked with assessing whether proposed legislation and regulations related to FHFA are efficient, economical, legal, and susceptible to fraud and abuse. During this reporting period, FHFA sought OIG review on one proposed rule and six final rules, which OIG provided. Five of these final rules have been published; the sixth has not. Of the five published final rules, OIG provided substantive comment for two during FHFA's proposed rule-making procedures. (For more information about OIG's comments on the proposed rules, see OIG, *Semiannual Report to the Congress: April 1, 2014, through September 30, 2014*, at page 44 "Enterprise Housing Goals;" and OIG, *Semiannual Report to the Congress: October 1, 2011, through March 31, 2012*, at page 47 "Federal Home Loan Bank Community Support Requirements." Both reports are online at www.fhfaoig.gov/Reports/Semiannual.)

With respect to the sixth final rule, which has not been published, FHFA sought OIG review of a preliminary draft final rule concerning corporate governance, for which it had not sought public notice and comment. Because FHFA's draft rule was not published in the *Federal Register* and FHFA continues to consider OIG's comments, disclosure of OIG's comments could adversely affect internal Agency deliberations and will not be disclosed in this report. OIG will report on the substance of its comments once the Agency publishes the final rule.

Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system and recent history has shown that financial distress at the Enterprises and deteriorating conditions in U.S. housing and financial markets threatened the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy and decisions were made to invest $187.5 billion in the Enterprises. The continuing outsized role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations, and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

Our focus on risk-based oversight demands that we are sufficiently nimble to evaluate the sufficiency of existing controls to mitigate known risks and to identify new and emerging risks and the systems in place to control those risks. We have created an internal resource, ORA (discussed above), to assist in identification of emerging risks and appropriate revisions to our work plan as new risks emerge and existing risks are well-controlled. OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during this reporting period include:

Congress

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

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

Anonymous Hotline

During this reporting period, the OIG anonymous hotline continued to serve as a vehicle through which Agency, Enterprise, and FHLBank employees and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. OIG actively promotes its anonymous hotline in multiple ways, including its website, posters, emails targeted to FHFA and GSE employees, and public reports. During this reporting period, the hotline received 984 contacts, which included: reports of alleged misconduct that were referred to OI for potential civil and/or criminal investigation; reports of alleged wrongdoing in connection with other agencies that were referred to the appropriate resource; requests for assistance on housing-related issues; and complaints on OIG-related issues.

Close Coordination with Other Oversight Organizations

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

We maintained active participation in coordinated oversight activities during this reporting period:

- ***RMBS Working Group.*** OIG continued its significant role in the RMBS Working Group. (See discussion at "Investigations: Civil Cases," page 25.)
- ***FBI Cybercrimes Task Force.*** The FBI's Washington, DC, field office spearheads a cybercrimes task force, and OIG has assigned a special agent to it. This multi-agency task force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help prosecute cybercriminals and stop cyber attacks made against institutions maintaining personally identifiable information, trade secrets, and financial data.

- ***CIGIE.*** OIG actively participates in several CIGIE committees and working groups.
  - The Inspection and Evaluation Committee provides leadership for the CIGIE inspection and evaluation community's effort to improve agency program effectiveness by maintaining professional standards, developing protocols, promoting the use of advanced techniques, and fostering awareness of best practices. During this semiannual period, the committee continued its work on a pilot "peer review" program for inspection and evaluation units in the IG community. The peer review is designed to assess organizations' work under CIGIE's Blue Book (January 2012) and to promote credibility of such work by validating the organizations' work processes and evaluating their objectivity, independence, and rigorous adherence to applicable standards. The Committee's training team, of which OIG is an active member, also planned and sponsored training and development sessions for inspection and evaluation staff from across the IG community, including a new weeklong course teaching the fundamentals of conducting and writing inspections and evaluations. Finally, the committee began work on a new website to share documents among various community members.
  - The Investigation Committee advises the IG community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines. During this semiannual period, the Investigations Committee, in conjunction with the Legislation Committee, created a working group to gather information about the history, requirements, and necessity of law enforcement authority in the IG community. Another committee working group began a project to review and make recommendations regarding the quality standards for investigations and the investigations peer review process. Finally, OIG participated in a joint subcommittee of CIGIE's Investigation and Information Technology Committees that focuses on digital forensics and computer crime investigations.
- ***CIGFO.*** CIGFO was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** to oversee FSOC, which is charged with strengthening the nation's financial system. OIG is a permanent member of CIGFO, along with the IGs of Treasury, the FDIC, the SEC, and others. By statute, CIGFO audits FSOC each year. This year, OIG led the CIGFO audit of FSOC's monitoring of interest rate risk to the financial system. The report recommended that FSOC document in its annual reports to Congress its rationale for removing prior year recommendations related to interest rate risk. (See discussion at pages 21-22.)

Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak regularly with officials at the FHLBanks and the Enterprises to benefit from their insights and made presentations to industry groups, including the Mortgage Bankers Association, International Association of Financial Crimes Investigators, banks, and Fidelity National Title Group, focusing on fraud trends and emerging schemes in the mortgage industry. We also speak with homeowners' groups and associations.

Appendix A: Glossary and Acronyms

Glossary of Terms

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

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

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010: Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, ending "too big to fail," protecting the American taxpayer by ending bailouts, and protecting consumers from abusive financial services practices.

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

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

Federal Home Loan Banks: The FHLBanks are 11 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or "advances") to their member banks but do not lend directly to individual borrowers.

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

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

Freddie Mac: A federally chartered corporation that purchases residential mortgages, pools them into

securities, and sells them to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

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

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

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

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

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

Inspector General Reform Act of 2008: Legislation that amends the Inspector General Act to enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

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

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

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

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

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

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

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

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

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

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

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

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Acronyms and Abbreviations

AFR	Annual Financial Report
Agency	Federal Housing Finance Agency
AHP	Affordable Housing Program
Blue Book	*Quality Standards for Inspection and Evaluation*
CAE	Chief Audit Executive
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSP	Common Securitization Platform
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
DOJ	Department of Justice
Enterprises	Fannie Mae and Freddie Mac
EO	Executive Office
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FIED	Fiscal Integrity & Economic Development Association, Inc.
FISMA	Federal Information Security Management Act of 2002
FOIA	Freedom of Information Act
FSOC	Financial Stability Oversight Council
GAO	Government Accountability Office
GSEs	Government-Sponsored Enterprises
HERA	Housing and Economic Recovery Act of 2008
HFE Program	Housing Finance Examiner Commission Program
HUD-OIG	Department of Housing and Urban Development Office of Inspector General
IG	Inspector General
IPIA	Improper Payments Information Act of 2002
IRS-CI	IRS-Criminal Investigation
IT	Information Technology
LPI	Lender-Placed Insurance
Nomura	Nomura Securities International, Inc.
OA	Office of Audits
OAd	Office of Administration
OC	Office of Chief Counsel
OCo	Office of Compliance and Special Projects
OE	Office of Evaluations
OFHEO	Office of Federal Housing Enterprise Oversight
OI	Office of Investigations
OICF	Office of Internal Controls and Facilities

OIG	Federal Housing Finance Agency Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OQA	Office of Quality Assurance
ORA	Office of Risk Analysis
PAR	Performance and Accountability Report
PSPAs	Senior Preferred Stock Purchase Agreements
REO	Real Estate Owned
RMBS	Residential Mortgage-Backed Securities
SAI	Servicing Alignment Initiative
SAUSA	Special Assistant U.S. Attorney
SEC	Securities and Exchange Commission
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
SIR	Systemic Implication Report
Treasury	Department of the Treasury
Yellow Book	*Government Auditing Standards*

Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote the transparency, efficiency, and effectiveness of the Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Figure 7 (see page 47) summarizes OIG's formal recommendations that were made, pending, or closed during the reporting period. Figure 8 (see page 60) lists OIG's audit and evaluation reports for which all of the recommendations were closed in prior semiannual periods.

Figure 7. Summary of OIG Recommendations

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

No.	Recommendation	Report	Status
AUD-2014-016-2	FHFA should perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency's objectives.	*FHFA's Representation and Warranty Framework*	Closed—FHFA Audit Follow-up Official Management Decision.
AUD-2014-015-1	FHFA should communicate a written supervisory expectation to Fannie Mae requiring that its business units perform a review of non-delegated short sale transactions to identify any transactions where the servicer submitted net proceeds that were less than the sale amount approved by Fannie Mae and draft a remediation plan, as appropriate.	*FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices*	Closed—Final action taken by FHFA.
AUD-2014-015-2	FHFA should communicate a written supervisory expectation to Fannie Mae requiring its internal audit group to review Fannie Mae's plan to collect funds for delegated and non-delegated short sale transactions where the net proceeds received were less than the amounts authorized by Fannie Mae.	*FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices*	Closed—Final action taken by FHFA.
AUD-2014-015-3	FHFA should analyze Fannie Mae's actions and remediation plans in response to recommendations 1 and 2 to determine whether Fannie Mae has taken necessary steps to ensure that servicers are held accountable for servicing violations and credit losses are minimized. FHFA should also require modification by Fannie Mae of its remediation plans, as appropriate.	*FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales Below the Authorized Prices*	Recommendation agreed to by FHFA; implementation of recommendation pending.

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

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

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

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

No.	Recommendation	Report	Status
AUD-2014-008-14	FHFA should perform supervisory review and follow-up to ensure that the Enterprises develop and implement the portal as intended by FHFA's uniform mortgage data program directive.	*FHFA's Oversight of the Enterprises' Use of Appraisal Data Before They Buy Single-Family Mortgages*	Closed—Final action taken by FHFA.
EVL-2015-007-1	FHFA should ensure that DER's recently adopted procedures for quality control reviews meet the requirements of Supervision Directive 2013-01 and require DER to document in detail the results and findings of each quality control review in examination workpapers, including any shortcomings found during the quality control review.	*Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-007-2	FHFA should evaluate the effectiveness of the new quality control procedures, as implemented, one year after adoption.	*Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-006-1	FHFA should direct each Enterprise to submit its proposed operating budget and supporting materials for the next fiscal year so that FHFA has sufficient time before the fiscal year begins to adequately analyze the proposals.	*FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2015-006-2	FHFA should revise the existing budget review process and staff the review process with employees who have the qualifications and experience needed for critical financial assessments of the proposed Enterprise budgets to permit FHFA to determine whether each Enterprise's budget aligns with FHFA's strategic direction and its safety and soundness priorities.	*FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-006-3	FHFA should set a date certain during the first quarter of 2016 by which FHFA will take final action on each proposed annual operating budget for 2016 and approve the budget by that date.	*FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-006-4	FHFA should set a date certain, prior to January 31 of each subsequent fiscal year, by which FHFA will take final action on each proposed annual operating budget and approve the budget by that date.	*FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*	Recommendation generally agreed to by FHFA; implementation of recommendation pending.
EVL-2015-004-1	FHFA should implement a sufficiently robust internal communications process to ensure that the FHFA Director is informed of significant issues and concerns by FHFA staff on all conservatorship and supervisory matters that require the Director's decision.	*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2015-004-2	Given the importance of the Audit Committee's oversight over Fannie Mae's financial reporting and risk management and the breadth of its responsibilities, FHFA should require the Fannie Mae Audit Committee to hold meetings relating to its oversight responsibilities and to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information among directors, senior management, and risk managers and to satisfy FHFA of the adequacy of the Committee's risk oversight function.	*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-004-3	FHFA should conduct a comprehensive evaluation of the Audit Committee's effectiveness, which should include: whether all members of the Committee are independent from management; whether the Committee's responsibilities are clearly articulated; whether each Committee member understands what is expected of him/her under the Committee's Charter and regulatory requirements; whether the Committee's interactions with Fannie Mae's financial executives, Internal Audit, and the external audit firm are robust and occur regularly; whether the Committee raises critical questions with management and the CAE, including questions that indicate the Committee's understanding of key accounting policies and judgments and that challenge management's judgments and conclusions; whether the Committee has been responsive to issues raised by the external auditor; and whether the Committee periodically assesses the list of top risks and determines responsibility for management of each risk.	*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2015-004-4	FHFA should direct the Audit Committee to align its meetings to address priority issues and risks so that standard reports and informational materials are provided to the Committee in advance of the meetings and may not need to be included on the meeting agenda for discussion and so that the Committee has sufficient time at each meeting to enable it to focus on the most critical issues and risks.	*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-004-5	FHFA should assess the adequacy of the criteria and processes used by the Enterprise's Board of Directors to populate each committee of the Board and to rotate committee membership to ensure that the members of each committee have the commitment to be effective.	*FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-003-1	FHFA should test the new human resource system to ensure that it will provide data sufficient to enable the Agency to perform comprehensive analyses of workforce issues.	*Women and Minorities in FHFA's Workforce*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-003-2	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	*Women and Minorities in FHFA's Workforce*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-003-3	FHFA should adopt a diversity and inclusion strategic plan.	*Women and Minorities in FHFA's Workforce*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2015-003-4	FHFA should research opportunities to partner with inner-city and other high schools, where feasible, to ensure compliance with HERA.	*Women and Minorities in FHFA's Workforce*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2015-001-1	DER should (1) adopt a comprehensive examination workpaper index; and (2) standardize electronic workpaper folder structures and naming conventions between the two core teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.	*Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities*	Recommendation partially agreed to by FHFA; implementation of recommendation pending.
EVL-2014-009-1	FHFA should assess the merits of litigation by the Enterprises against their servicers and lender-placed insurance (LPI) providers to remedy potential damages caused by past abuses in the LPI market and, then, take appropriate action in this regard.	*FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs*	Closed—Final action taken by FHFA.
EVL-2014-008-1	To strengthen its management of the Common Securitization Platform (CSP), FHFA should establish schedules and time frames for completing key components of the project, as well as an overall completion date as appropriate.	*Status of the Development of the Common Securitization Platform*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-008-2	To strengthen its management of the CSP, FHFA should establish cost estimates for varying stages of the initiative, as well as an overall cost estimate.	*Status of the Development of the Common Securitization Platform*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-003-1	FHFA's Deputy Director of Division of Housing Mission and Goals (DHMG) should establish an ongoing process to evaluate servicers' Servicing Alignment Initiative (SAI) compliance and the effectiveness of the Enterprises' remediation efforts.	*FHFA's Oversight of the Servicing Alignment Initiative*	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.
EVL-2014-003-2	FHFA's Deputy Director of DHMG should direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment.	*FHFA's Oversight of the Servicing Alignment Initiative*	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.

No.	Recommendation	Report	Status
EVL-2014-003-3	FHFA's Deputy Director of DHMG should regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.	*FHFA's Oversight of the Servicing Alignment Initiative*	Recommendation partially agreed to by FHFA; recommendation remains open and will continue to be monitored.
EVL-2014-002-1	FHFA should review its implementation of the 2013 Enterprise examination plans and document the extent to which resource limitations, among other things, may have impeded their timely and thorough execution.	*Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-002-2	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	*Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2014-002-3	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	*Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises*	Recommendation agreed to by FHFA; implementation of recommendation pending.
EVL-2013-012-1	FHFA should ensure Fannie Mae takes the actions necessary to reduce servicer reimbursement processing errors. These actions should include utilizing its process accuracy data in a more effective manner and implementing a red flag system.	*Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses*	Closed—Final action taken by FHFA.
EVL-2013-012-2	FHFA should require Fannie Mae to: • quantify and aggregate its overpayments to servicers regularly; • implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and • report its findings and progress to FHFA periodically.	*Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses*	Recommendation agreed to by FHFA; implementation of recommendation pending.

No.	Recommendation	Report	Status
EVL-2013-012-3	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	*Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses*	Closed—Recommendation rejected.
EVL-2012-005-1	FHFA should continue its ongoing horizontal review of unsecured credit practices at the FHLBanks by: • following up on any potential evidence of violations of the existing regulatory limits and taking supervisory and enforcement actions as warranted; and • determining the extent to which inadequate systems and controls may compromise the FHLBanks' capacity to comply with regulatory limits and taking any supervisory actions necessary to correct such deficiencies as warranted.	*FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices*	Closed—Final action taken by FHFA.
EVL-2012-005-2	FHFA should strengthen the regulatory framework around the FHLBanks' extension of unsecured credit by considering the utility of: • establishing maximum overall exposure limits; • lowering the existing individual counterparty limits; and • ensuring that the unsecured exposure limits are consistent with the FHLBank System's housing mission.	*FHFA's Oversight of the Federal Home Loan Banks' Unsecured Credit Risk Management Practices*	Recommendation agreed to by FHFA; implementation of recommendation pending.
COM-2015-001-1	FHFA should determine the causes of the shortfalls in the HFE Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of GSE examinations.	*OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program*	Recommendation agreed to by FHFA; implementation of recommendation pending.

Figure 8. Summary of OIG Reports Where All Recommendations Are Closed

Report	No. of Recommendations
FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018)	1
FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages (AUD-2014-014)	2
CohnReznick LLP's Independent Audit of FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers (AUD-2014-013)	3
FHFA's Use of Government Travel Cards (AUD-2014-010)	4
FHFA's Use of Government Purchase Cards (AUD-2014-006)	4
FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005)	4
FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties (AUD-2014-004)	3
Fannie Mae's Controls Over Short Sale Eligibility Determinations Should be Strengthened (AUD-2014-003)	6
FHFA Can Strengthen Controls over Its Office of Quality Assurance (AUD-2013-013)	7
Additional FHFA Oversight Can Improve the Real Estate Owned Pilot Program (AUD-2013-012)	3
FHFA Can Improve Its Oversight of Fannie Mae's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-011)	1
FHFA Can Improve Its Oversight of Freddie Mac's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies (AUD-2013-010)	4
Action Needed to Strengthen FHFA Oversight of Enterprise Information Security and Privacy Programs (AUD-2013-009)	5
FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws (AUD-2013-008)	1
Enhanced FHFA Oversight Is Needed to Improve Mortgage Servicer Compliance with Consumer Complaint Requirements (AUD-2013-007)	9
FHFA Can Enhance Its Oversight of FHLBank Advances to Insurance Companies by Improving Communication with State Insurance Regulators and Standard-Setting Groups (AUD-2013-006)	2

Report	No. of Recommendations
FHFA's Oversight of the Asset Quality of Multifamily Housing Loans Financed by Fannie Mae and Freddie Mac (AUD-2013-004)	2
FHFA's Oversight of Contract No. FHF-10-F-0007 with Advanced Technology Systems, Inc. (AUD-2013-002)	5
FHFA's Oversight of the Enterprises' Efforts to Recover Losses from Foreclosure Sales (AUD-2013-001)	3
FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions (AUD-2012-008)	9
FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Servicers (AUD-2012-007)	2
FHFA's Call Report System (AUD-2012-006)	3
FHFA's Supervisory Risk Assessment for Single-Family Real Estate Owned (AUD-2012-005)	1
FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management (AUD-2012-004)	7
FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards (AUD-2012-003)	2
FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors (AUD-2012-001)	5
FHFA's Oversight of Fannie Mae's Default-Related Legal Services (AUD-2011-004)	3
Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Privacy Program and Implementation - 2011 (AUD-2011-003)	9
Clifton Gunderson LLP's Independent Audit of the Federal Housing Finance Agency's Information Security Program - 2011 (AUD-2011-002)	5
Audit of the Federal Housing Finance Agency's Consumer Complaints Process (AUD-2011-001)	3
Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims (EVL-2014-011)	2
Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks (EVL-2014-006)	1
FHFA's Reporting of Federal Home Loan Bank Director Expenses (EVL-2014-005)	2

Report	No. of Recommendations
FHFA's Oversight of Derivative Counterparty Risk (ESR-2014-001)	1
FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America (EVL-2013-009)	1
FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit (EVL-2013-008)	2
FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees (EVL-2013-005)	2
FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs (EVL-2013-04)	3
Case Study: Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy (EVL-2013-03)	3
FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals (EVL-2013-001)	1
FHFA's Oversight of Freddie Mac's Investment in Inverse Floaters (EVL-2012-009)	4
Evaluation of FHFA's Oversight of Fannie Mae's Transfer of Mortgage Servicing Rights from Bank of America to High Touch Servicers (EVL-2012-008)	4
Follow-up on Freddie Mac's Loan Repurchase Process (EVL-2012-007)	1
FHFA's Certifications for the Preferred Stock Purchase Agreements (EVL-2012-006)	2
Fannie Mae's and Freddie Mac's Participation in the 2011 Mortgage Bankers Association Convention and Exposition (ESR-2012-004)	2
FHFA's Oversight of the Enterprises' Charitable Activities (ESR-2012-003)	2
Evaluation of FHFA's Management of Legal Fees for Indemnified Executives (EVL-2012-002)	2
FHFA's Oversight of Troubled Federal Home Loan Banks (EVL-2012-001)	3
Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America (EVL-2011-006)	2
Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs (EVL-2011-005)	4

Report	No. of Recommendations
Evaluation of FHFA's Oversight of Fannie Mae's Management of Operational Risk (EVL-2011-004)	3
Evaluation of FHFA's Role in Negotiating Fannie Mae's and Freddie Mac's Responsibilities in Treasury's Making Home Affordable Program (EVL-2011-003)	1
Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs (EVL-2011-002)	8
Federal Housing Finance Agency's Exit Strategy and Planning Process for the Enterprises' Structural Reform (EVL-2011-001)	2

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

Section 5(a) of the Inspector General Act provides that OIG shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing our activities during the immediately preceding six-month periods ending March 31 and September 30. Further, section 5(a) lists more than a dozen categories of information that we must include in our semiannual reports.

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

The text that follows further addresses the status of OIG's compliance with sections 5(a)(6), (8), (9), (10), (11), (12), (13), (14), (15), and (16) of the Inspector General Act. Finally, OIG provides information concerning administrative subpoenas that it issued during the semiannual period.

Source/Requirement	Pages
Section 5(a)(1)- A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.	12-21
Section 5(a)(2)- A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	13-18 47-59
Section 5(a)(3)- An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	47-51 54-59
Section 5(a)(4)- A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	25-34 68-94
Section 5(a)(5)- A summary of each report made to the Director of FHFA.	12-21
Section 5(a)(6)- A listing, subdivided according to subject matter, of each audit and evaluation report issued by OIG during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.	12-21 65
Section 5(a)(7)- A summary of each particularly significant report.	12-24
Section 5(a)(8)- Statistical tables showing the total number of audit and evaluation reports and the total dollar value of questioned and unsupported costs.	12-21 65
Section 5(a)(9)- Statistical tables showing the total number of audit and evaluation reports and the dollar value of recommendations that funds be put to better use by management.	12-21 65
Section 5(a)(10)- A summary of each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.	65
Section 5(a)(11)- A description and explanation of the reasons for any significant revised management decision made during the reporting period.	65
Section 5(a)(12)- Information concerning any significant management decision with which the Inspector General is in disagreement.	65
Section 5(a)(13)- The information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	66
Section 5(a)(14)- An appendix containing the results of any peer review conducted by another IG; or the date of the last peer review, if no peer review was conducted during the reporting period.	66
Section 5(a)(15)- A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	66
Section 5(a)(16)- A list of any peer reviews of another IG during the reporting period.	66

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

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

Figure 9 (see below) discloses OIG's questioned and unsupported cost findings, and recommendations that funds be put to better use.

Audit and Evaluation Reports with No Management Decision

Section 5(a)(10) of the Inspector General Act, as amended, requires that OIG report on each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. There were no audit or evaluation reports issued before April 1, 2015, that await a management decision.

Significantly Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended September 30, 2015, there were no significantly revised management decisions on OIG's audits and evaluations.

Significant Management Decision with Which the Inspector General Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in disagreement. During the six-month reporting period ended September 30, 2015, there were no management decisions with which the Inspector General disagreed.

Figure 9. Funds to Be Put to Better Use by Management, Questioned Costs, and Unsupported Costs for the Period April 1, 2015, Through September 30, 2015

Report Issued	Recommendation No.	Date	Potential Monetary Benefits		
			Questioned Costs	Unsupported Costs	Funds Put to Better Use
			$-	$-	$-
Total			**$-**	**$-**	**$-**

Federal Financial Management Improvement Act of 1996

Section 5(a)(13) of the Inspector General Act, as amended, requires that OIG report information concerning instances of and reasons for failures to meet any remediation plan intermediate target dates designed to remedy findings that the Agency's financial management systems do not comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. During the reporting period, the Agency did not fail to meet any intermediate target dates in any remediation plans relating to the condition of its financial management system.

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

Peer Reviews

Sections 5(a)(14), (15), and (16) of the Inspector General Act, as amended, require that OIG provide information—relevant to the semiannual period—on any peer reviews of OIG, unimplemented recommendations from any peer reviews of OIG, and any peer reviews conducted by OIG. During the reporting period, there were no peer reviews of OIG's audit or investigative activities. The most recent—and only—peer reviews of OIG's audit and investigative activities were reported on March 20, 2014, and August 25, 2014, respectively. (For full copies of these reports, see www.fhfaoig.gov/About/PlanningAndPerformance.) Neither of these peer review reports includes recommendations. However, in connection with the peer review of OIG's audit activities, the reviewer issued a separate finding and recommendation "that was not considered to be of sufficient significance to affect" the reviewer's opinion that OIG's "system of quality control for the audit organization . . . has been suitably designed and complied with to provide FHFA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects." OIG has implemented the recommendation. OIG did not conduct any peer reviews during the six-month reporting period ended September 30, 2015.

Subpoenas Issued

During the reporting period, OIG issued 25 subpoenas as summarized in Figure 10 (see below).

Figure 10. Subpoenas Issued for the Period April 1, 2015, Through September 30, 2015

Issuing Office	Number of Subpoenas
OA	0
OE	0
OI	25
Total	**25**

Appendix D: OIG Reports

See www.fhfaoig.gov for OIG's reports.

Evaluation Reports

Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations (EVL-2015-007, September 30, 2015).

FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose (EVL-2015-006, September 30, 2015).

Audit Reports

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency Office of Inspector General's Information Security Program – 2015 (AUD-2015-003, September 9, 2015).

Kearney & Company, P.C.'s Independent Evaluation of the Federal Housing Finance Agency's Information Security Program – 2015 (AUD-2015-002, September 9, 2015).

Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System: Report to the Financial Stability Oversight Council and the Congress (CIGFO-2015-001, July 27, 2015).

FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2014 (AUD-2015-001, May 14, 2015).

Other Reports

FHFA Non-Career Employees Have Not Been Involved in FHFA's Freedom of Information Act Process (COM-2015-002, August 6, 2015).

OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program (COM-2015-001, July 29, 2015).

Letter to Congress: Real Estate Owned Maintenance Vendors (July 24, 2015).

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Bank Fraud Schemes in West Palm Beach and Tampa			
Individuals were allegedly involved in marketing and selling condominiums at developments in both Palm Beach County and in the Tampa area. The schemes were similar and involved seller-provided incentive packages that included cash to close, cash rebates, and guaranteed rent, which were not disclosed to the lenders that funded the mortgages.			
Brendan Bolger	Marketer	Sentenced to 24 months in prison, 60 months of supervised release, forfeiture of $4,322,264, and ordered to pay $13,641,197 in restitution.	September 18, 2015
Jordana Ende-Tobel	Real Estate Broker	Was involved in two cases, one in the U.S. District Court for the Middle District of Florida, Tampa, which was transferred to and combined with the case in the U.S. District Court for the Southern District of Florida. Concurrently sentenced to 6 months of home confinement, 36 months of supervised release, forfeiture of $106,217 in the Southern District case and $56,883 in the Tampa case, and ordered to pay $1,878,211 in restitution, joint and several, in the Southern District case and $499,500, joint and several, in the Tampa case.	September 4, 2015
Gary Blankenship	Real Estate Agent/ Co-Conspirator	Charged with wire fraud, bank fraud, and wire fraud affecting a financial institution.	August 6, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Eli Riesel	Developer	Sentenced to 36 months in prison, 36 months of supervised release, forfeiture of $506,651, and ordered to pay $12.5 million in restitution, joint and several. (Also convicted by jury trial during this reporting period on April 16, 2015.)	July 16, 2015
Rashmi Airan-Pace	Attorney and Escrow/ Title Agent	Was involved in two cases, one in the U.S. District Court for the Middle District of Florida, Tampa, which was transferred to and combined with the case in the U.S. District Court for the Southern District of Florida. She was concurrently sentenced to 1 year, 1 day in prison, 36 months of supervised release, forfeiture of $26,973 in the Tampa case, and ordered to pay $16,496,242 in restitution, joint and several, in the Southern District Case and $2,652,974 in restitution, joint and several, in the Tampa case.	June 16, 2015
Joaquin Cossio	Real Estate Broker	Sentenced to 6 months in prison, 24 months of supervised release, and ordered to pay $1,215,729 in restitution, joint and several.	April 24, 2015
Mike Zaric	Contract Coordinator Manager for Broadmor Development, LLC	Pled guilty to making a false declaration before a grand jury proceeding.	March 25, 2015
Joseph L. Pasquale	Real Estate Broker/ Straw Buyer Recruiter	Charged with one count of conspiracy to commit bank fraud and two counts of bank fraud.	March 17, 2015
Florencio Luis Tezanos	Former Home Mortgage Consultant at Wells Fargo Bank	Sentenced to 18 months in prison and 36 months of supervised release.	February 18, 2015
Jose Aller	Marketer	Sentenced to 12 months, 1 day in prison, 24 months of supervised release, and ordered to pay $2,951,263 in restitution, joint and several.	August 29, 2014
Ernesto Rodriguez	Recruiter	Sentenced to 12 months, 1 day in prison, later reduced to 6 months, 24 months of supervised release, and ordered to pay $2,951,263 in restitution, joint and several.	August 29, 2014
Builder Bailout Scheme			
Defendant conspired with others to allegedly induce buyers to purchase homes at inflated prices by providing undisclosed financial incentives to buyers to keep the sales price of the new homes high, thereby protecting the financial interests of the builders.			
Ayman Shahid	Company President	Pled guilty to conspiracy to commit bank fraud.	August 20, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
A Condo Developer Ponzi Scheme Involving Enterprise Properties			
The Cay Clubs Resorts, which operated resort-style hotels/condominiums throughout the U.S., allegedly operated as a massive Ponzi and securities fraud scheme. It allegedly defrauded 1,400 investors, FDIC-insured banks, and the Enterprises out of over $300 million. The scheme caused a loss to Freddie Mac of $8,390,663 and to Fannie Mae of $2,850,086.			
Cristal Clark (also known as Cristal Coleman)	Cay Clubs Owner/ Executive	Acquitted.	August 14, 2015
Barry J. Graham	Director of Sales for Cay Clubs	Sentenced to 60 months in prison and 36 months of supervised release.	March 30, 2015
Ricky L. Stokes	Director of Investor Relations/Sales Agent	Sentenced to 60 months in prison and 36 months of supervised release.	March 24, 2015
Fred Davis Clark Jr. (also known as Dave Clark)	Cay Clubs Owner/ Scheme Leader	Arrested and charged with bank fraud conspiracy.	September 16, 2014
A Loan Origination Scheme Involving Kickbacks to Straw Buyers and Others			
Conspirators allegedly owned or controlled real estate properties and enlisted others to recruit straw buyers to fraudulently purchase condominiums in the properties. The defendants prepared and caused to be prepared loan documents containing false statements, which induced lenders to make loans to finance the purchases. Conspirators allegedly used the loan proceeds to pay kickbacks to the brokers, recruiters, and straw buyers, as well as to pay the mortgages to conceal the conspiracy. The scheme caused losses of over $20 million, with loss exposure to Fannie Mae and Freddie Mac at $5,216,873 and $5,646,264, respectively. The sentenced defendants have been ordered to pay $21,240,064 in restitution, joint and several, with each individual assigned a portion of the total amount.			
Lazaro Mendez	Owner/Seller	Sentenced to 108 months in prison, 60 months of supervised release, and ordered to pay restitution, joint and several.	July 8, 2015
Marie Mendez	Straw Buyer	Sentenced to 57 months in prison, 60 months of supervised release, and ordered to pay restitution, joint and several.	July 8, 2015
Stavroula Mendez	Developer-Seller	Sentenced to 135 months in prison, 60 months of probation, forfeiture of $35,252,331, and ordered to pay restitution, joint and several.	July 8, 2015
Enrique Angulo	Straw Buyer Recruiter	Sentenced to 30 months in prison, 36 months of supervised release, and ordered to pay restitution, joint and several.	March 24, 2015
Frank Ibarzabal	Straw Buyer Recruiter	Sentenced to 12 months in prison, 60 months of supervised release, and ordered to pay restitution, joint and several.	March 5, 2015
Dorian A. Magarino	Straw Buyer Recruiter	Sentenced to 6 months of home confinement, 24 months of supervised release, and ordered to pay restitution, joint and several.	February 10, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Leidy Masvidal	Loan Officer/Broker/ Owner of Mortgage Company	Sentenced to 33 months in prison, 60 months of supervised release, and ordered to pay restitution, joint and several.	December 4, 2014
Douglas Ponce	Straw Buyer Recruiter	Sentenced to 15 months in prison, 5 years of supervised release, and ordered to pay restitution, joint and several.	December 3, 2014
Tania Masvidal	Loan Officer	Sentenced to 35 months in prison, 60 months of supervised release, and ordered to pay restitution, joint and several.	December 3, 2014
Wilkie Perez	Mortgage Broker/ Owner of Mortgage Company	Sentenced to 36 months in prison, 36 months of supervised release, and ordered to pay restitution, joint and several.	December 2, 2014
Luis Michael Mendez	Owner/Seller	Sentenced to 51 months in prison, 3 years of supervised release, and ordered to pay restitution, joint and several.	December 2, 2014
Alfredo Chacon	Straw Buyer Recruiter	Sentenced to 31 months in prison, 36 months of supervised release, and ordered to pay restitution, joint and several.	September 26, 2014
Francisco Martos	Loan Officer	Sentenced to 30 months in prison, 36 months of supervised release, and ordered to pay restitution, joint and several.	September 26, 2014
Dorian W. Magarino	Straw Buyer	Sentenced to 24 months in prison, 36 months of supervised release, and ordered to pay restitution, joint and several.	September 26, 2014
Luis Mendez Sr.	Owner/Developer/ Seller	Indicted for bank fraud, wire fraud, and conspiracy to commit bank and wire fraud.	March 13, 2014
Two Indicted in Elaborate Condo Scheme			
The indictment alleged that Sanchez and Cevallos, acting in concert with others, bought or facilitated the sale of condominiums to straw buyers at inflated prices. The inflated prices allowed the sellers in the transactions, also co-conspirators, to sell the condominiums for more than their market value.			
David Cevallos	Mortgage Broker	Charged with conspiracy and wire fraud affecting a financial institution.	April 29, 2015
Osbel Sanchez	Sales Associate	Charged with conspiracy and wire fraud affecting a financial institution.	April 29, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Fraud Against La Jolla Bank			
In February 2010, La Jolla Bank failed and was taken over by the FDIC. At the time of failure, La Jolla had outstanding advances from the FHLBank of San Francisco of $700 million. Beginning in 2004, Martinez and senior bank officers agreed to issue loans under favorable terms to high-volume borrowers they referred to as "Friends of the Bank," or "FOBs," several of whom made large cash kickbacks in return for the loans.			
Amalia Martinez	Head of SBA Lending	Pled guilty to conspiracy to misapply bank funds.	September 25, 2015
Jocelyn Brown	Loan Broker	Indicted for false statements, conspiracy, and bank bribery.	August 6, 2015
Nonprofit Defrauds FHLBank Member			
According to the indictment, from February 2010 through August 2012, Williams, Executive Director of a nonprofit organization, Fiscal Integrity & Economic Development Association, Inc. (FIED), and a co-conspirator allegedly submitted intentionally fraudulent documentation to the FHLBank of Dallas under the auspices of obtaining AHP funds.			
Marlene Williams	Executive Director of Nonprofit	Pled guilty to conspiracy.	September 10, 2015
Kayla Lindsey	Chief Financial Officer	Charged with conspiracy and false statements.	April 7, 2015
Former Title Company President Charged with Bank Fraud			
A criminal complaint alleges that between 2010 and 2011 the defendant engaged in a scheme that caused approximately $1.3 million in losses to two financial institutions.			
Mark Andreotti	Former Title Company President	Charged with bank fraud.	August 14, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Bank CEO Committed Bank Fraud Involving FHLBank Member			
Owens allegedly abused his position with Voyager Bank to circumvent the bank's lending procedures to obtain letters of credit, which included a $7.5 million irrevocable confirming letter of credit from the FHLBank of Des Moines. The loss to Voyager is estimated at $9.7 million.			
Timothy Owens	Former CEO and Chairman of the Board at Voyager Bank	Pled guilty to obstruction of an examination of a financial institution.	July 30, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Former Loan Officer Charged with Bank Fraud			
An indictment alleges that from 2003 to 2008, the defendant obtained five cash-out mortgages for a property located in Massachusetts. Bruce allegedly submitted false information to the banks regarding employment history, income, assets, and debt. Bruce also allegedly filed fraudulent discharges of mortgages to create the appearance that earlier loans had been paid in full.			
Denise Bruce	Former Loan Officer	Indicted on five counts of bank fraud.	September 30, 2015
Bank Examiner Charged			
In December 2014, an individual allegedly submitted a loan application with a false letter of employment. At the time, the individual was employed as a bank examiner for the Office of the Comptroller of the Currency.			
Sophelia Alexander	Borrower/Treasury Employee	Charged with attempted residential mortgage fraud.	September 29, 2015
Two Indicted in Michigan for Loan Origination and Short Sale Fraud			
The indictment cites that two individuals allegedly applied for two separate cash-out mortgage refinance loans using material misrepresentations and false statements.			
Mohamed Al Teremish	Straw Buyer	Charged with false pretenses.	September 29, 2015
Souad Abdallah	Straw Buyer	Charged with false pretenses.	September 29, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
$10 Million Scheme			
Several conspirators agreed to defraud mortgage lenders and financial institutions by obtaining over $10 million in fraudulent mortgages for the purchase of 20 multi-family properties in New Haven, Connecticut.			
Jeffrey Weisman	Closing Attorney	Sentenced to 12 months and 1 day in prison, 3 years of supervised release, forfeiture of $28,538, and ordered to pay $2,021,053 in restitution, joint and several.	September 25, 2015
Charles Lesser	Mortgage Broker	Sentenced to 12 months in prison, 36 months of probation, forfeiture of $41,316, and ordered to pay $906,108 in restitution (a portion of which is joint and several).	July 15, 2015
Ronald Hutchison Jr.	Property Investor/ Former New York Correctional Officer	Sentenced to 28 months in prison, 36 months of supervised release, and ordered to pay $2,605,036 in restitution, joint and several.	February 9, 2015
Menachem Yosef Levitin (also known as Joseph Levitin)	Real Estate Company Owner/Property Manager	Sentenced to 22 months in prison, 60 months of supervised release, and ordered to pay $2,605,036 in restitution, joint and several. As part of his plea, Levitin agreed to forfeit approximately $163,000, as well as his ownership interests in 19 properties in New Haven, which resulted in over $1.4 million in net proceeds.	January 16, 2015
Andrew Constantinou	Former GMAC and Countrywide Loan Officer	Sentenced to 60 months in prison, 60 months of supervised release, and ordered to pay $2,105,277 in restitution, joint and several. In addition, Constantinou was ordered not to engage in the business of mortgage lending.	December 16, 2014
Jacques Kelly	Property Investor/ Former New York Correctional Officer	Sentenced to 15 months in prison, 60 months of supervised release, and ordered to pay $179,769 in restitution, joint and several.	July 23, 2014
Genevieve Salvatore	Closing Attorney	Restitution was ordered in the amount of $1,262,889, joint and several. She was previously sentenced to 24 months in prison, 36 months of supervised release, and ordered to forfeit $19,000. Additionally, Salvatore was ordered suspended for a period of 6 years from practicing law in the state of Connecticut.	June 2, 2014

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Lawrence Dressler	Closing Attorney	Sentenced to 20 months of incarceration, 36 months of supervised release, forfeiture of $5,100, and ordered to pay $403,450 in restitution, joint and several.	March 20, 2014
Kwame Nkrumah (also known as Roger Woodson)	Owner of Real Estate Company/Property Manager	Sentenced to 48 months of incarceration, 60 months of supervised release, forfeiture of $113,080, and ordered to pay $2,939 in restitution, joint and several.	September 12, 2013
Charmaine Davis	Owner of Mortgage Brokerage Firm	Sentenced to 24 months in prison, 60 months of supervised release, forfeiture of $39,434, and ordered to pay a $6,000 fine.	September 6, 2013
Bradford J. Rieger	Closing Attorney	Restitution ordered in the amount of $743,016, joint and several. Previously sentenced to 24 months of incarceration, 60 months of supervised release, and a $10,000 fine.	January 16, 2013
Unlicensed Appraiser/Identity Theft Scheme			
Subjects allegedly fraudulently obtained and used the identity of a licensed appraiser to prepare real estate appraisals, which were subsequently used to support mortgage loans sold to the Enterprises. White submitted over 400 appraisals for use in mortgage loans using the stolen identity.			
Diana Merritt	President/Loan Officer at Merit Home Finance Inc.	Convicted of mortgage fraud.	September 24, 2015
Douglas White	Unlicensed Appraiser	Pled guilty to identity theft and mortgage fraud.	August 19, 2015
A Loan Origination Fraud Involving Kickbacks to Straw Buyers, Buyers, and Other Participants			
Conspirators allegedly participated in a mortgage fraud scheme in which they entered into agreements to purchase properties for amounts in excess of the original asking price. The loss exposure to the Enterprises is $1,192,125.			
Carlos Morales	Developer/Seller	Pled guilty to conspiracy to commit bank fraud.	September 16, 2015
Guillermo Rincon	Straw Buyer	Sentenced to 18 months in prison, 36 months of supervised release, and ordered to pay $549,100 in restitution, joint and several.	May 5, 2015
Enrique Hernandez	Loan Officer/Straw Buyer Recruiter	Pled guilty to one count of conspiracy to commit mail fraud affecting a financial institution and bank fraud. Hernandez agreed to pay restitution in the amount of $899,700, joint and several, and forfeit $108,724.	February 23, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Builder Loan Origination Fraud Scheme			
An information alleges that the builder, along with co-conspirators, participated in preparing a false HUD-1 form that falsely represented that the borrower provided a down payment.			
Timothy Ritchie	Builder/Investor	Charged with making a false statement with intent to defraud.	September 15, 2015
$3.8 Million Origination Scheme			
Campbell and Miles participated in a mortgage fraud scheme wherein false financial information was provided to secure home mortgage loans. Agodio subsequently participated in a variation of the scheme targeting unsuspecting immigrants, wherein he used false financial information to secure $3.8 million in loans through Miles to purchase approximately three dozen row houses. All of these properties are now in default or foreclosure.			
Kevin Campbell	Property Investor/ Seller	Sentenced to 19 months in prison, 60 months of probation, and ordered to pay $1,182,822 in restitution, joint and several.	September 11, 2015
Jonathan Lee Miles	Loan Officer	Sentenced to 18 months in prison, 60 months of probation, and ordered to pay $1,182,822 in restitution, joint and several.	September 10, 2015
Alberic Okou Agodio	Real Estate Broker	Pled guilty to conspiracy, wire fraud, and aggravated identity theft.	July 21, 2015
Sentencing in Origination Scheme			
Several individuals conspired to defraud lending institutions by inducing them to fund mortgage loans by using material misrepresentations and omissions of material fact in HUD-1 forms, Settlement Statements, loan applications, and other loan documents. The scheme caused estimated losses of $967,989 to Fannie Mae and $130,265 to Freddie Mac.			
Michael Edwards	Loan Officer	A previous sentence was vacated and Edwards was re-sentenced to 46 months in prison, 12 months of supervised release, and ordered to pay $1,300,402 in restitution, joint and several.	September 11, 2015
Donald Mattox	Home Builder/Straw Buyer	A previous sentence was vacated resulting in Mattox pleading guilty to one count of conspiracy to commit wire fraud.	August 4, 2015
Lawrence Day	Recruiter	Sentenced to 90 months in prison, 36 months of supervised release, forfeiture of $1,877,032, and ordered to pay $3,108,998 in restitution, joint and several.	July 28, 2015
Scott Sherman	Builder	Sentenced to 20 months in prison, 12 months of supervised release, and ordered to pay $493,500 in restitution, joint and several, and a $7,500 fine.	November 13, 2014

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Donna Cobb	Escrow Officer	Sentenced to 21 months of incarceration, 36 months of supervised release, and ordered to pay $2,151,376 in restitution, joint and several.	May 28, 2014

CPA Plea in Multimillion Dollar Mortgage Fraud Scheme

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

Anthony Young	Recruiter/Straw Buyer	Sentenced to 60 months of probation, 8 weekends of incarceration, and ordered to pay $300,600 in restitution, joint and several.	September 4, 2015
Frank Davis Jr.	Ringleader	Sentenced to 60 months in prison, 36 months of supervised release, forfeiture of $2,296,463, and ordered to pay $2,730,345 in restitution, joint and several.	August 7, 2015
Edward Dacy	Settlement Agent and Lawyer	Sentenced to 72 months in prison, 60 months of supervised release, forfeiture of $2,730,345, and ordered to pay $2,730,345 in restitution, joint and several.	August 6, 2015
Cheryl Morrison	Settlement Processor	Sentenced to 5 years of probation, forfeiture of $42,600, and ordered to pay $41,600 in restitution, joint and several.	August 5, 2015
Howard Tutman III	Loan Officer	Sentenced to 60 months of probation, 20 weekends of incarceration, forfeiture of $606,414, and ordered to pay $484,370 in restitution, joint and several.	August 4, 2015
Frederick Robinson Sr.	Second Ringleader	Sentenced to 27 months in prison, 36 months of supervised release, forfeiture of $971,900, and ordered to pay $925,311 in restitution, joint and several.	July 31, 2015
Pauline Pilate	Real Estate Agent	Sentenced to 36 months of probation, 8 weekends of incarceration, forfeiture of $1 million, and ordered to pay $1 million in restitution, joint and several.	July 16, 2015
Lonnie Johnson	Bank Employee	Sentenced to 366 days in prison, 36 months of supervised release, and ordered to pay $277,000 in restitution, joint and several.	July 15, 2015
A. Conrad Austin	CPA	Sentenced to 60 months of probation, 4 weekends of incarceration, forfeiture of $5,001, and ordered to pay $5,001 in restitution.	May 15, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Derrick Cannon	Recruiter/Straw Buyer	Sentenced to 15 months in prison, 36 months of supervised release, and ordered to pay $173,165 in restitution.	August 31, 2012
Property Flipping Scheme Results in Charge and Guilty Plea			
An indictment alleges that individuals were utilizing inflated appraisals and loan-level misrepresentations to lenders to carry out a property flipping scheme. The investigation came to OIG through a referral from the Freddie Mac Financial Fraud Investigation Unit.			
Abdulkarim Saad	Investor	Pled guilty to fraud by false pretenses.	September 3, 2015
Omar Dalton	Short Seller/Straw Buyer	Charged with false pretenses with intent to defraud.	August 10, 2015
Multi-defendant Origination Scheme			
Subjects allegedly conspired to commit various types of financial fraud including mortgage fraud, federal student loan fraud, and small business loan fraud. The scheme involved submitting false documents and straw buyers. The loss exposure to the Enterprises is approximately $800,000.			
Derrek L. Campbell II	Straw Buyer	Sentenced to 6 months in prison, 24 months of supervised release with first 6 months under home detention, and ordered to pay $133,715 in restitution, joint and several.	August 21, 2015
Anthony Trice	Owner Credit Repair Business	Pled guilty to mail fraud and aggravated identity theft.	July 14, 2015
David Edwards	Organizer	Pled guilty to mail fraud.	June 30, 2015
Jerrod Weathersby	Owner Credit Repair Business	Pled guilty to mail fraud and aggravated identity theft.	May 26, 2015
Noreen Mian	Loan Officer	Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges.	March 5, 2015
Sirarthur McClelland	Organizer	Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges.	March 5, 2015
Warren Taylor	Organizer	Charged in a 12-count superseding indictment alleging mail, wire, and other fraud charges.	March 5, 2015
Straw Buyer Scheme			
The defendant, owner of Joon Asset Management Corp., orchestrated a straw-buying scheme on a Fannie Mae property.			
Patrick Mullings	Owner of Joon Asset Management/Scheme Leader	Sentenced to time served, 36 months of supervised release, forfeiture of $525,000, and ordered to pay $25,000 in fines.	August 3, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Loan Officers and Property Investors Team Up in Scheme			
In this scheme loan officers and property investors allegedly submitted false information to qualify buyers. The false information allegedly included gift letters to disguise the nature of the down payments, false employment, and income, as well as false leases.			
Joe Brogan	Loan Officer	Sentenced to 14 months in prison, 60 months of supervised release, and ordered to pay $353,984 in restitution.	July 17, 2015
Property Flipping Scheme			
Co-conspirators allegedly engaged in a property flipping scheme wherein straw buyers were paid undisclosed incentives to purchase houses sold by Payne.			
Marcus Payne	Mortgage Broker/ Company President	Pled guilty to wire fraud and aggravated identity theft.	July 16, 2015
Condo Conversion Fraud Scheme in Northern Illinois			
This scheme involved providing undisclosed incentives by the seller of a condo conversion project. The scheme resulted in a $16 million loan origination fraud.			
Walter Vali	Loan Originator	Pled guilty to mail fraud.	July 16, 2015
Nunzio Grieco	Loan Originator	Charged with wire and mail fraud.	July 1, 2015
A Loan Origination with Undisclosed Incentives and Misrepresentations			
King, Hearns, and others allegedly conspired to launder proceeds by means of committing wire fraud. King and Hearns had allegedly formed an agreement with others to assist in providing buyers of homes with the funds to close on real estate transactions, which they would falsely represent to lenders were provided by the buyers. The scheme caused a loss exposure of approximately $866,000 to the Enterprises, which bought or secured mortgages on 10 properties.			
Euneisha Hearns	Loan Officer	Convicted by a jury at trial.	July 9, 2015
Stephen King	Real Estate Agent	Sentenced to 33 months in prison, 36 months of supervised release, and ordered to pay $685,704 in restitution, joint and several.	March 18, 2015
Sentencings in Short Sale Scheme			
Lyles and others allegedly conspired to defraud lenders of more than $1.2 million in a short sale flipping scheme by facilitating fraudulent short sales and subsequent fraudulent loan originations on four properties. Freddie Mac suffered a loss of $334,328 in one of the transactions.			
Sasha Cortes	Title Company Principal/ Co-Conspirator	Sentenced to 48 months in prison and ordered to pay $15,000 in restitution.	June 19, 2015
Brian Lyles	Lead Conspirator	Sentenced to 96 months in prison.	May 28, 2015
BKL Property Management, LLC	Entity Controlled/ Utilized by Lyles to Facilitate the Fraud	Sentenced to $200,000 in restitution.	May 28, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Cristian Rampello	Former Bank Employee/Provided False Verifications	Sentenced to 24 months of probation and ordered to pay $20,000 in restitution.	February 27, 2015
Pedro Espada Jr.	Former Bank Employee/Provided False Verifications	Sentenced to 36 months of probation.	February 27, 2015
$3.5 Million Loan Origination Fraud			
The defendants diverted $1.3 million in funds from over $8.2 million in fraudulently obtained loans, which resulted in losses of over $1.2 million to the Enterprises and losses of $3.5 million to FHA and conventional lenders.			
Carmen Johnson	Facilitated False Credit History	Sentenced to 57 months in prison and 60 months of supervised release.	June 3, 2015
Peter Ligate	Realtor	Sentenced to 5 months in prison, 36 months of supervised release, and ordered to pay $352,091 in restitution, joint and several.	March 31, 2015
Edgar Tibakweitira	Realtor	Sentenced to 57 months in prison, 60 months of supervised release, and ordered to pay $2,482,856 in restitution, joint and several. Tibakweitira must surrender to U.S. Immigration officials upon conclusion of incarceration.	March 31, 2015
Cane Mwihava	Straw Buyer	Sentenced to 6 months of home detention, 60 months of supervised release, and ordered to pay $352,091 in restitution, joint and several. Mwihava must surrender to U.S. Immigration officials upon conclusion of his home detention.	March 23, 2015
Annika Boas	Straw Buyer	Sentenced to 27 months in prison, 60 months of supervised release, and ordered to pay $511,147 in restitution, joint and several. Boas must surrender to U.S. Immigration officials upon conclusion of incarceration.	January 7, 2015
Abdallah Kitwara	Straw Buyer	Sentenced to 15 months in prison, 60 months of supervised release, and ordered to pay a $50,000 fine and $290,954 in restitution, joint and several.	December 2, 2014
Ayoub Luziga	Straw Buyer	Sentenced to 21 months in prison, 24 months of supervised release, and ordered to pay $999,726 in restitution, joint and several. Luziga must surrender to U.S. Immigration officials upon conclusion of incarceration.	November 24, 2014

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Raymond Abraham	Facilitated Straw Buyers with False IDs	Sentenced to 33 months in prison, 60 months of supervised release, and ordered to pay $999,726 in restitution, joint and several. Abraham must surrender to U.S. Immigration officials upon conclusion of incarceration.	October 27, 2014
Mrisho Mzese	Seller	Due to be sentenced but fled back to Tanzania and is now a fugitive. Previously found guilty by a jury on 11 felony counts.	August 7, 2014
Gladyness Silaa	Realtor	Sentenced to 6 months of home confinement, 36 months of probation, and ordered to pay $378,602 in restitution, joint and several.	June 16, 2014
Mokorya Wambura	Straw Buyer	Sentenced to 60 months in prison, 60 months of supervised release, and ordered to pay $434,867 in restitution, joint and several. Wambura faces deportation upon release.	June 16, 2014
Flavia Makundi	Straw Buyer	Sentenced to time served and 24 months of supervised release.	June 2, 2014
Larry Johnson	Facilitated a Straw Buyer	Sentenced to 8 months in prison and ordered to pay $352,091 in restitution, joint and several.	February 24, 2014
Straw Buyer Scheme Falls Flat			
Senior managers of a company allegedly profited by selling homes to straw buyers at inflated prices. The homes fell into foreclosure, causing losses to the lending institutions including Freddie Mac.			
Susan Rendino	Co-Conspirator	Sentenced to 36 months of probation and ordered to pay $2,504 in restitution and a $2,000 fine.	May 19, 2015
$11 Million Fraudulent Loan Scheme			
Co-conspirators of the scheme allegedly prepared mortgage applications that contained false information about borrowers' income, employment, and assets, and generated dozens of mortgage loans for unqualified borrowers. The co-conspirators then allegedly took a commission or fee. The allegedly fraudulent loans were worth more than $11 million.			
Jose Garcia	Real Estate Broker/ Co-Owner of Mortgage Brokerage	Pled guilty to conspiracy to commit bank fraud.	April 10, 2015
Lucy Garcia	Real Estate Broker/ Co-Owner of Mortgage Brokerage	Pled guilty to conspiracy to commit bank fraud.	April 9, 2015
Property Sales Kickback Scheme			
Williams and co-conspirators allegedly conspired to commit bank fraud by inflating home prices, selling the homes, and then kicking back proceeds to those involved in the scheme.			
Herbert Williams	Recruiter	Sentenced to 102 months in prison, 60 months of supervised release, and ordered to pay $965,900 in restitution.	April 2, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Foreclosure Scheme in Texas			
According to the indictment, the defendants allegedly fraudulently deeded to themselves properties that were vacant and going through the foreclosure process. The true owners were not aware that the defendants had allegedly stolen their properties. Once the homes were fraudulently recorded in the defendants' names, the defendants allegedly filed lawsuits that falsely asserted they were the owners of the properties.			
Andra Hubbard	Supplier of Counterfeit Devices	Charged with conspiracy to produce, use, or traffic in counterfeit access devices and to possess 15 or more counterfeit access devices.	September 10, 2015
Kendeverick Williams	Organizer	Charged with conspiracy to produce, use, or traffic in counterfeit access devices and to possess 15 or more counterfeit access devices; produce, use, or traffic in counterfeit access devices and aiding and abetting.	September 10, 2015
Montelyus Jackson	Supplier of Counterfeit Devices	Charged with conspiracy to produce, use, or traffic in counterfeit access devices and to possess 15 or more counterfeit access devices; produce, use, or traffic in counterfeit access devices and aiding and abetting; and possession of 15 or more counterfeit access devices and aiding and abetting.	September 10, 2015
Aviyah Webb	Organizer	Charged with conspiracy to produce, use, or traffic in counterfeit access devices and to possess 15 or more counterfeit access devices; and possession of 15 or more counterfeit access devices and aiding and abetting.	September 10, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Short Sale Scheme in Brooklyn			
Conspirators attempted to engage in a short sale property flipping scheme with a property located in Brooklyn, New York. Freddie Mac held the property and raised concerns after analysis of the submitted documentation.			
Fedlaire Aristide	Short Sale Facilitator	Pled guilty.	August 25, 2015
Short Sale Schemes in Michigan			
An indictment alleges that multiple individuals were involved in short sale schemes that involved finding a straw buyer for the purchase of homes that were not listed for sale at the time of purchase. According to the indictment, cash buyers allegedly conveyed the properties to relatives of the original homeowner, who then allegedly originated a loan for less than the original loan amount.			
Bassam Hamood	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 14, 2015
Mariam Dakroub	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 13, 2015
Chadi Rustom	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 13, 2015
Walid Fawaz, Sr.	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 13, 2015
Zinab Allie	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 13, 2015
Bahij El-fadl	Short Seller/Straw Buyer	Charged with false pretense with intent to defraud.	August 13, 2015
Three Pleas in Short Sale Scheme			
Conspirators allegedly engaged in several schemes to fraudulently obtain money, including: a “flopping” scheme where banks were convinced to accept short sale prices that were lower than a legitimate buyer would be willing to pay; recording false second and third liens; tricking distressed homeowners into signing their properties over to criminal actors; and renting distressed properties while simultaneously stalling foreclosure through the use of fraudulent documents.			
Jackalyn Bashara	Scheme Leader and Licensed Real Estate Salesperson	Sentenced to 128 months in prison and ordered to pay $836,165 in restitution and $600 in fines.	June 29, 2015
Deanna Bashara	Property Manager for Rent Scheme	Pled guilty to theft of personal property.	June 26, 2015
Eric Wolfe	Scheme Leader/ Licensed Real Estate Broker	Pled guilty to conspiracy, grand theft, preparing false documents, and mortgage fraud.	June 25, 2015
Billie Bryant	Straw Buyer and Opened Bank Accounts Used in the Scheme	Sentenced to 36 months of probation and ordered to pay $300,000 in restitution and $300 in fines.	May 13, 2015
Gerald Bryant	Straw Buyer and Opened Bank Accounts Used in the Scheme	Charges dropped.	

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Jered Bryant	Intimidated Victims and Collected Rent Generated by the Scheme	Sentenced to 36 months in prison (18 months suspended), 18 months of supervised release, and ordered to pay $124,467 in restitution.	May 13, 2015
Lindsay Petty	Generated False/ Forged Documents	Pled guilty to grand theft and conspiracy to commit mortgage fraud.	January 29, 2015
Delia Wolfe	Assisted with Shell Companies and Opened Bank Accounts Used in the Scheme	Pled guilty to forgery.	January 29, 2015
James Styring	Generated and Filed False/Forged Documents	Pled guilty to grand theft and mortgage fraud.	October 1, 2014
Brian Deden	Notary/Licensed Real Estate Broker	Charged with conspiracy, grand theft, mortgage fraud, and procuring/offering false/forged instruments.	June 25, 2014
Joseph Jaime	Licensed Real Estate Salesperson/ Facilitated Short Sales	Charged with conspiracy, grand theft, mortgage fraud, procuring/offering false/forged instruments, perjury, bribery of a witness, and intimidation of a witness.	June 25, 2014
Attorney and Others Involved in Short Sale Mortgage Fraud			
Foley allegedly submitted false documents and recruited a straw buyer to support a short sale transaction where the property was deeded back to Foley. This scheme caused a loss to Freddie Mac of approximately $148,000.			
Gary Foley	Organized Scheme/ Attorney	Sentenced to 30 days in prison, 36 months of supervised release, and ordered to pay $79,786 in restitution.	June 25, 2015
$3 Million Short Sale Fraud Scheme			
An indictment alleges that the defendants conspired to defraud mortgage lending companies and financial institutions by making false statements on loan applications and short-sale documents in order to obtain properties in their names and the names of others. The conspiracy allegedly involved at least 24 properties, some of which were owned by the GSEs, and caused losses to lenders of at least $3 million.			
Jyoteshna Karan	Licensed Real Estate Broker	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Praveen Singh	Karan's Husband	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Nani Isaac	Participated in Non-arm's Length Transaction	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Mahendra Prasad	Participated in Non-arm's Length Transaction	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Sunita Singh	Participated in Non-arm's Length Transaction	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Phul Singh	Participated in Non-arm's Length Transaction	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Martin Bahrami	Straw Buyer	Indicted for loan and credit application fraud, mail fraud, conspiracy to commit bank fraud, and asset forfeiture.	June 25, 2015
Attorney Allegedly Commits Short Sale Fraud			
Farrace, an attorney specializing in real estate transactions, owned two investment properties with substantial mortgage loans. After receiving foreclosure notices for both, Farrace allegedly created an entity called "Dignitas LLC" that he wholly controlled but used a friend's name as the company's registered agent to conceal that fact, and then allegedly submitted short sale offers to the bank that serviced the loans on both properties. Because the servicing bank did not know of the true relationship between Farrace and Dignitas LLC, it approved one of the short sales. The other sale was stopped by law enforcement and the bank.			
Robert Farrace	Attorney	Indicted for wire fraud and criminal asset forfeiture.	June 18, 2015
Attorney Involved in Short Sale Fraud			
A senior attorney with the FDIC allegedly sold her home to her live-in boyfriend in a fraudulent short sale. The individual allegedly submitted hardship material to the lender stating she had suffered a loss of income associated with the federal pay freeze and that the transaction would be at arm's length. The individual was not actually subject to the pay freeze and made over $230,000 in pay.			
Michelle Borzillo	Scheme Organizer/ Attorney	Charged with bank fraud and false statements.	May 14, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Plea and Multiple Charges in Loan Modification Scheme			
Defendants conspired to operate a loan modification scheme. Co-conspirators allegedly made false promises and guarantees to financially distressed homeowners regarding their company's ability to negotiate loan modifications from the homeowner's mortgage lenders, as well as false guarantees of specific interest rates and mortgage payments.			
Crystal Buck	Sales Employee	Sentenced to 60 months in prison. Also ordered to return to court at a future date for a restitution hearing.	September 28, 2015
Albert DiRoberto	Sales Employee	Sentenced to 60 months in prison. Also ordered to return to court at a future date for a restitution hearing.	September 28, 2015
Christopher George	Co-Owner of Company	Sentenced to 20 years in prison, 5 years of supervised release, and ordered to pay $7,065,117 in restitution.	September 28, 2015
Yadira Padilla	Handled Customer Complaints and Refund Requests	Sentenced to 48 months in prison. Also ordered to return to court at a future date for a restitution hearing.	September 28, 2015
Ruby Encina		Indicted for filing a false tax return.	September 9, 2015
Iris Pelayo	Appointment Setter	Sentenced to 48 months in prison and 36 months of supervised release.	July 27, 2015
Andrea Ramirez	Scheme Leader	Pled guilty to conspiracy to commit mail fraud.	February 25, 2015
Michael Bates	Sales Employee	Pled guilty to mail fraud.	February 5, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Catalina Deleon	Received Customer Complaints and Managed Processing Department	Pled guilty to conspiracy to commit wire fraud.	December 9, 2014
Michael Parker	Sales Employee	Pled guilty to conspiracy to commit wire fraud.	December 3, 2014
Hamid Shalviri	Directed Distressed Homeowners to Sign a Fractional Interest in Their Properties Over to Him	Pled guilty to mail fraud.	December 2, 2014
Mindy Holt	Supervised Processing Department	Pled guilty to wire fraud.	September 20, 2013

Quit Claim Bankruptcy Scheme

A complaint alleges a company was quit claiming properties belonging to several individuals who were undergoing potential foreclosure, and that they later filed bogus **bankruptcy** petitions in the names of the property owners to tie up the properties while they rented them out. The original owners never gave permission to the company to file bankruptcies on their behalf.

David Griffin	Recruiter—Owner of Bay 2 Bay	Pled guilty to bankruptcy fraud and making a false statement under oath during a bankruptcy proceeding.	September 16, 2015

Former Loan Officer Charged

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

Delio Coutinho	Loan Officer	Sentenced to 36 months in prison, 36 months of supervised release, and ordered to pay $1,312,334 in restitution, joint and several.	August 11, 2015
Kenneth Sweetman	Unlicensed Title Agent	Sentenced to 24 months in prison, 36 months of supervised release, and ordered to pay $2,223,131 in restitution, joint and several.	July 27, 2015
Carmine Fusco	Unlicensed Title Agent	Sentenced to 27 months in prison, 36 months of supervised release, forfeiture of $370,334, and ordered to pay $2,233,131 in restitution, joint and several.	July 14, 2015
Christopher Ju	Former Real Estate Agent	Sentenced to 24 months of supervised release, 4 months of home confinement, and ordered to pay $256,511 in restitution, joint and several.	June 8, 2015
Amedeo Gaglioti	Closing Attorney	Sentenced to 12 months in prison, 36 months of supervised release, forfeiture of $1 million, and ordered to pay $2,001,245 in restitution, joint and several.	June 4, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Joseph DiValli	Loan Officer	Pled guilty to conspiracy to commit wire fraud, wire fraud, and tax evasion.	May 28, 2015
Paul Chemidlin	Unlicensed Appraiser	Pled guilty to a one-count information with conspiracy to commit wire fraud and one count of distribution and possession with intent to distribute Methylone.	July 22, 2014
Loan Modification Scheme			
Defendants, along with others, allegedly devised a scheme to obtain upfront payments from victims who were trying to obtain a loan modification by leading them to believe they were receiving federally funded home loan modifications under the government's Home Affordable Modification Program.			
Joshua Sanchez	Scheme Leader	Pled guilty to conspiracy to commit wire fraud.	August 4, 2015
Kristen Ayala	Co-Conspirator	Pled guilty to conspiracy to commit wire fraud.	July 28, 2015
Foreclosure Rescue and Loan Modification Scheme			
Caballero engaged in a foreclosure rescue/loan modification scheme where he solicited and accepted payments from homeowners to modify their loans, submitted false loan documentation in homeowners' names to lenders, and fraudulently accepted rents and mortgage payments while not forwarding these payments to lenders.			
Jose Antonio Caballero	Owner/Operator	Sentenced to 24 months in prison, 12 months of supervised release, and ordered to pay $997,712 in restitution.	July 20, 2015
Loan Modification Scheme			
Defendants operated a loan modification scheme and allegedly made a number of false statements to clients in an effort to induce them to pay upfront fees, with little or no services rendered.			
Charlie Rose	Trained Telemarketers	Charged with mail fraud and subscribing to a false tax return.	July 8, 2015
Stacy Tuers	Office Manager of Telemarketing Company	Pled guilty to conspiracy to commit mail and wire fraud and failure to file a tax return.	May 21, 2015
Loan Modification Scheme			
Jalan allegedly operated a scheme to defraud distressed homeowners by representing that she was an attorney offering loan modification services. Jalan is alleged to have failed to disclose that the Consumer Financial Protection Bureau had obtained a preliminary injunction that prohibited her from offering loan modification services.			
Najia Jalan	Scheme Leader	Pled guilty to mail fraud and aggravated identity theft.	July 1, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
False REO Escrow Scheme			
In 2011, Leyva allegedly created a fictitious escrow company and falsely claimed to have the right and authority to sell foreclosed properties owned by the Enterprises at a significant discount. The scheme resulted in victim losses of at least $500,000.			
Ralph Leyva	Controlled Fictitious Companies	Sentenced to 48 months in prison and ordered to pay $355,708 in restitution.	September 10, 2015
False REO Scheme			
In 2013, Moore filed documents with the Cook County Recorder's Office obscuring title ownership of a property, which gave the appearance he had claim to ownership or possession of the property when in fact he did not. Moore also proceeded to collect rent from tenants. The scheme obstructed sale of the property by Fannie Mae, the true owner of the property.			
Anatoly Moore	Owner/Landlord	In a jury trial, Moore was convicted of multiple counts of theft and burglary.	September 10, 2015
Family of Real Estate Agents Allegedly Commit REO Fraud			
The subjects, all real estate agents, allegedly conspired to use trusts and the identities of others to purchase Fannie Mae REO properties in violation of Fannie Mae rules.			
Daphne Iatridis	Real Estate Agent	Indicted for aggravated identity theft, wire fraud, mail fraud, and conspiracy to commit bank fraud.	August 26, 2015
Arthur Telles	Real Estate Agent	Indicted for aggravated identity theft, wire fraud, mail fraud, and conspiracy to commit bank fraud.	August 26, 2015
Brendyn Iatridis	Real Estate Agent	Indicted for aggravated identity theft, wire fraud, mail fraud, and conspiracy to commit bank fraud.	August 26, 2015

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Three Charged for Fraud Scheme Using Warranty Deeds			
An indictment alleges that individuals were charged with wire and mail fraud based on a scheme that involved filing false documents intended to obtain residential properties held by the lenders or investors.			
Terry Teague	Notary	Charged with wire and mail fraud.	April 21, 2015
Marcus Lenton	Scheme Leader	Charged with wire and mail fraud.	April 21, 2015
Arnetra Ferguson	Notary	Charged with wire and mail fraud.	April 21, 2015
Contractor REO Fraud			
Unlicensed contractors operating in south Florida were performing repairs/renovations on GSE REO and other conventional properties without the applicable contractors' license or insurance, which is required by state law.			
Antonio Rivere	Unlicensed Contractor	Sentenced to 6 months of probation and ordered to pay $540 in fines.	April 17, 2015
Steve Bacall	Unlicensed Contractor	Sentenced to 2 days in prison and ordered to pay $563 in fines.	April 7, 2015
Flipping REO Scheme			
This scheme involved investor flipping of foreclosure properties by offering financial incentives to the borrowers that were not disclosed to the lenders. Allegations also involve loan officers facilitating the sales by falsifying loan applications.			
Cedric Scott	Mortgage Broker/Loan Officer	Pled guilty to conspiracy to commit mail, wire, and bank fraud.	April 8, 2015

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

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

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Deed Theft Scheme			
Subjects allegedly operated a scheme to steal Fannie Mae and Freddie Mac properties by filing forged grant deeds and then selling the stolen properties to unwitting investors. At least 10 Enterprise properties were stolen, which caused a loss of over $2.5 million.			
Mazen Alzoubi	Scheme Leader	Charged in a superseding indictment with aggravated identity theft, mail fraud, conspiracy to commit mail fraud, wire fraud, and money laundering.	September 3, 2015
Mohamad Daoud	Allowed His Company to be Used to Obscure Chain of Title	Pled guilty to money laundering.	July 6, 2015
Daniel Deaibes	Interacted with Escrow Companies During Sales of Stolen Properties	Pled guilty to mail fraud.	March 18, 2015
Sovereign Citizen Group Charged in REO Scheme			
Four individuals were allegedly commandeering vacant or recently foreclosed homes owned by Fannie Mae or other lenders. Those charged were part of a sovereign citizens group known as "Moors;" the group does not believe that they must comply with state or federal law. The individuals allegedly moved into the properties or rented them to family members. In some cases, the renters were unaware of the scheme.			
David Farr		Charged with theft, burglary, and financial institution fraud.	June 30, 2015
Torrez Moore		Charged with theft, burglary, and financial institution fraud.	June 30, 2015
Raymond Trimble		Charged with theft, burglary, and financial institution fraud.	June 30, 2015
Arshad Thomas		Charged with theft, burglary, and financial institution fraud.	June 30, 2015

Appendix L: OI Publicly Reportable Investigative Outcomes Involving RMBS Schemes

In this type of fraudulent conspiracy, traders fraudulently manipulate the buying and selling prices of RMBS bonds, causing customers to pay more to purchase the RMBS securities and to receive less when they sell RMBS securities.

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Three Former Bond Traders Charged			
Three former bond traders were indicted in a 10-count indictment alleging they committed fraud in connection with sales of RMBS bonds. The indictment alleges that the three former supervisory traders, who sat on the RMBS desk at Nomura in New York, engaged in a conspiracy to defraud customers of Nomura.			
Ross Shapiro	Managing Director of Nomura	Indicted.	September 3, 2015
Michael Gramins	Executive Director of the RMBS Desk at Nomura	Indicted.	September 3, 2015
Tyler Peter	Senior Vice President of the RMBS Desk at Nomura	Indicted.	September 3, 2015

Appendix M: OI Publicly Reportable Investigative Outcomes Involving Multi-family Schemes

Investigations in this category involve a variety of fraud schemes that relate to loans issued by the Enterprises to finance multi-family apartment buildings. A multi-family building is a building that has four or more units available for rent.

DEFENDANT	ROLE	MOST RECENT ACTION	DATE
Multi-family Scheme			
Yaney and Russell allegedly conspired to devise a scheme to defraud Washington Mutual Bank and Greystone Bank. Conspirators inflated the sale prices of a multi-family property and used false rent rolls to obtain an $8.4 million loan. Conspirators further used false rent roles, leases, information, and financials to obtain an $8.1 million refinance loan. The scheme caused over $6.6 million in losses to Fannie Mae.			
James Russell	Submitted False Documents	Sentenced to 18 months in prison, 3 years of probation, and ordered to pay $204,484 in restitution.	July 29, 2015
Maximus Yaney	Submitted False Documents	Sentenced to 18 months in prison, 24 months of probation, and ordered to pay $7,748,019 in restitution and $7,500 in fines.	May 27, 2015
Fraud Involving Condo Conversion Project			
Co-conspirators allegedly obtained fraudulent loans by misrepresenting information in order to secure a condominium conversion property.			
Alex Ogoke	Organizer/Recruiter	Acquitted at trial.	July 27, 2015
James Vani	Loan Officer	Sentenced to 42 months in prison, 36 months of probation, and ordered to pay $1,601,470 in restitution, joint and several.	July 7, 2015
Matthew Okusanya	Organizer/Recruiter	Pled guilty to wire fraud.	May 6, 2015

Appendix N: Fiscal Year 2016 Management and Performance Challenges.

OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

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

October 5, 2015

TO: Melvin L. Watt, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2016 Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000 (P.L. 106-531), the attached annual statement summarizes and assesses the most serious management and performance challenges facing the Federal Housing Finance Agency (FHFA or Agency).

FHFA serves two distinct roles for Fannie Mae and Freddie Mac (collectively, the Enterprises): currently, it acts as conservator for the Enterprises and as their regulator. It is also the regulator of the Federal Home Loan Banks (FHLBanks). In the attached statement, FHFA Office of Inspector General (OIG) identifies four key challenges the Agency faces in fulfilling these duties: conservatorship operations, supervision, non-bank sellers, and information technology security.

The attached summary and assessment statement is based on ongoing OIG work, OIG reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment.

The Federal Housing Finance Agency Office of Inspector General's Summary of the Agency's FY 2016 Management and Performance Challenges and Assessment

The Federal Housing Finance Agency (FHFA) was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as regulator of Fannie Mae and Freddie Mac (collectively, the Enterprises) and the Federal Home Loan Banks (FHLBanks), overseeing the safety and soundness and statutory missions of these government-sponsored enterprises (GSEs). In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into conservatorship. According to FHFA, it placed the Enterprises into conservatorship "in response to a substantial deterioration in the housing markets that severely damaged Fannie Mae and Freddie [Mac's] financial condition and left them unable to fulfill their mission without government intervention."[1] FHFA currently serves in a unique role: it is both conservator of and regulator for the Enterprises; and regulator for the FHLBanks.

Pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), the FHFA Office of Inspector General (OIG) has identified four significant management and performance challenges facing FHFA, based on ongoing OIG work, OIG published reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment: conservatorship operations; supervision; non-bank sellers; and information technology security. In this statement, OIG explains each of the four significant management and performance challenges and discusses specific aspects of those challenges. Both FHFA and OIG have previously acknowledged the difficulties resulting from the ongoing uncertainty regarding the future role of the Enterprises in the housing finance system. In identifying and assessing these four serious management and performance challenges facing FHFA, OIG remains mindful of this uncertainty and recognizes that such ongoing uncertainty adds additional difficulties for FHFA as it seeks to address these challenges.

Challenge: Conservatorship Operations

HERA, which vested FHFA with the power to place the Enterprises into conservatorship, grants FHFA sweeping authority over the Enterprises while they remain in conservatorship. As conservator, FHFA possesses all rights and powers of any stockholder, officer, or director of the Enterprises; it may operate the Enterprises and conduct all of the Enterprises' business activities; it may take actions necessary to put the Enterprises in a sound and solvent condition; and it may take actions appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.

When then-Secretary of the Treasury Paulson announced the conservatorships in September 2008, he explained that the following period of time was meant to be a "'time out' where we have stabilized the" Enterprises, during which the "new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market." The current FHFA Director has echoed that view in recognizing that

[1] FHFA, *FHFA as Conservator of Fannie Mae and Freddie Mac* (online at www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx).

conservatorship "cannot and should not be a permanent state" for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the "time out" period for the conservatorships has now entered its eighth year.

Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration over two entities that dominate the secondary mortgage market and the mortgage securitization sector in the United States, and thus affect the entire mortgage finance industry. The lack of consensus in Congress about the nation's future mortgage finance system and the role, if any, for the Enterprises may mean that the Enterprises will continue to operate under FHFA's conservatorship for a considerably longer period. Since entering conservatorship, the Enterprises have required $187.5 billion in financial support from the U.S. Department of the Treasury (Treasury) to avert insolvency, and, through September 2015, the Enterprises have paid to Treasury approximately $239 billion in dividends. Although market conditions have improved and the Enterprises have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge; the future performance of their business segments; the elimination by 2018 of a capital cushion to buffer against losses; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards. (For a detailed discussion of the uncertainty of the Enterprises' future profitability, see OIG, *The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured* (Mar. 18, 2015) (WPR-2015-001) (online at www.fhfaoig.gov/Content/Files/WPR-2015-001.pdf).)

As noted above, as conservator, FHFA is vested with express authority under HERA to operate the Enterprises and has expansive authority over trillions of dollars in assets and billions of dollars in revenue. FHFA also makes business and policy decisions that influence the entire mortgage finance industry. For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has determined to delegate revocable authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. The Enterprises recognize that FHFA, as conservator, has succeeded to—all rights, titles, powers, and privileges of the Enterprises and of any shareholder, officer, or director of the Enterprises, and that the directors of the Enterprises "no longer ha[ve] the power or duty to manage, direct or oversee [the] business and affairs" of the Enterprises.[2]

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG has determined that FHFA's administration of the conservatorships continues to be a critical risk. OIG identified this risk in each prior management and performance challenges statement and reiterates here that FHFA is challenged to increase its oversight of the Enterprise conservatorships. In particular, FHFA should strengthen its oversight of delegated matters and continue to strengthen its internal process to decide non-delegated matters.

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[2] See Fannie Mae, *Annual Report* (*Form 10-K*), at 25, 162 (Feb. 20, 2015) (online at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf). See also Freddie Mac, *Annual Report* (*Form 10-K*), at 20 (Feb. 19, 2015) (online at www.freddiemac.com/investors/er/pdf/10k_021915.pdf).

Oversight of Delegated Matters

As conservator of the Enterprises, FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises, and has statutory responsibilities to ensure that the Enterprises achieve their statutory purpose. Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, 12 U.S.C. § 4617(b)(2)(D), FHFA has delegated authority for many matters, both large and small, to the Enterprises and, since 2008, has issued more than 200 conservatorship directives in which it instructs the Enterprises to take certain actions, most of which relate to delegated responsibilities. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator.[3] As Fannie Mae states, "Our directors have no fiduciary duties to any person or entity except to the conservator." FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions). As conservator, FHFA is ultimately responsible for all decisions made and actions taken by the Enterprises, pursuant to FHFA's revocable grant of delegated authority.

Historically, FHFA's oversight of delegated matters, in its role as conservator, has largely been limited to attendance at Enterprise internal management and board meetings as observers and discussions with Enterprise managers and directors. For the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives. FHFA has not clearly defined the Agency's expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters.

FHFA should clearly define the Agency's expectations of the Enterprises for delegated matters; should define the standard it intends to apply when it assesses the actions of Enterprise directors, pursuant to the authority delegated to them by FHFA; and should strengthen its oversight of the Enterprises for matters delegated to them by the conservator. In a recent report, OIG assessed FHFA's conservatorship oversight of Fannie Mae's October 2013 appointment of its Chief Audit Executive—who heads Internal Audit, which is a critical element of Fannie Mae's risk management controls—and found that it was ineffective. Among other things, OIG found that FHFA had delegated to Fannie Mae's Board of Directors' Audit Committee the responsibility to hire a Chief Audit Executive and that Committee did not develop a plan to assess the appointee's conflicts or develop comprehensive controls to address them. As a consequence, Fannie Mae hired a candidate who was burdened by conflicts without controls in place to mitigate them. Even after FHFA, acting in its capacity as regulator, directed the Audit Committee to assess the candidate's conflicts and put compensating controls in place, the Committee declined to complete the requested assessment and adopt controls in a timely manner. For more than a year after the conflicted Chief Audit Executive began work, Fannie Mae's Internal Audit was not in

[3] See, e.g., Fannie Mae, *Annual Report (Form 10-K)*, at 25, 162 (Feb. 20, 2015) and Freddie Mac, *Annual Report (Form 10-K)*, at 20 (Feb. 19, 2015).

full conformance with governing standards, but FHFA failed to impose any consequences on either the individual Committee directors or on Fannie Mae. FHFA agreed with our remedial recommendations and, among other things, committed to instruct Fannie Mae to retain an independent third party to conduct a comprehensive evaluation of the Audit Committee's effectiveness, communicate to Fannie Mae its expectations for enhanced Audit Committee processes, and examine in 2016 the processes and criteria used by Fannie Mae to select and rotate members of board committees.

While FHFA employees attend Enterprise internal management and board meetings as observers, review materials provided by the Enterprises, and participate in discussions with Enterprise managers and directors, the Agency has lacked a structured process to share the information obtained by different FHFA employees with senior FHFA officials regarding matters delegated to the Enterprises. Lack of information sharing impedes the Agency's ability to oversee the Enterprises in carrying out their delegated responsibilities. For example, in our evaluation of Fannie Mae's hiring of a Chief Audit Executive, an FHFA employee told us that he raised concerns regarding the candidate's conflicts of interest to his superiors, but nothing in the record suggested that these concerns were raised with FHFA's then-Acting Director. Had those issues been socialized within senior FHFA management, FHFA senior officials would have been able to direct Fannie Mae to assess the candidate's conflicts and put controls in place to mitigate them before he was hired. FHFA committed to enhance its internal processes for information sharing.

Non-Delegated Matters

As noted, FHFA has retained authority to decide specific issues and can, at any time, revoke previously delegated authority. The Agency also should strengthen its processes for review and approval of non-delegated items. While FHFA has reported to OIG that it has made a number of enhancements to existing internal processes to improve the information flow to the FHFA Director, it has acknowledged, in response to a recent report from OIG, that additional improvements are warranted and have been put into place. (OIG, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose* (Sept. 30, 2015) (EVL-2015-006) (online at www.fhfaoig.gov/Content/Files/EVL-2015-006.pdf).)

In that evaluation, we assessed the effectiveness of FHFA's existing budget review and approval process for the Enterprises' annual operating budgets, which had increased approximately 31% between 2012 and 2015. We found budget submissions by the Enterprises after the fiscal year had begun, combined with cursory level analysis by FHFA's Division of Conservatorship and inadequate resources within that Division to assess the reasonableness of the proposed budgets, prevented FHFA from exercising effective control over Enterprise spending, both in amount and direction, and FHFA's approval of the budgets created the risk that it endorsed Enterprise spending that was not well understood by FHFA. OIG recommended, and FHFA agreed, to require the Enterprises to submit Board-approved proposed annual operating budgets before the end of a fiscal year so that the Agency has sufficient time to analyze them; to staff the internal FHFA review process with employees who have the skills and experience necessary to critically assess whether the proposed budgets align with the Agency's strategic direction and safety and

soundness priorities; and to set a date certain early in the fiscal year by which the Agency will act on the proposed budgets.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its conservatorship responsibilities, in addition to the actions discussed above that it has committed to take relating to our remedial recommendations. OIG has not assessed the impact of these actions on FHFA's responsibilities as conservator. In January 2015, FHFA issued its 2015 conservatorship scorecard outlining the measures the Agency will use to assess the Enterprises' performance for the year. During the first six months of 2015, FHFA issued 17 conservatorship directives to the Enterprises providing instruction on a broad range of delegated responsibilities. FHFA continues to work on development of a single mortgage-backed security to be issued by Fannie Mae or Freddie Mac and development of a common securitization platform.

Challenge: Supervision

As noted earlier, FHFA plays a unique role, as both conservator and as regulator for the Enterprises, and as regulator for the FHLBanks. As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act (12 U.S.C. 1440) requires each FHLBank to be examined at least annually. The exam function for the FHLBanks descends from the old Federal Home Loan Bank Board, through the Federal Housing Finance Board, to FHFA. As a result, there is a long history of examination practice and examination standards for DBR to draw upon.

FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. FHFA's annual examination program assesses Fannie Mae's and Freddie Mac's financial safety and soundness and overall risk management practices through ongoing monitoring, targeted examinations, and risk assessments. Prior to the creation of FHFA, the Enterprises were regulated by the Office of Federal Housing Enterprise Oversight (OFHEO), and OFHEO's first examination took place in 1994. In its Fiscal Year 2014 Performance and Accountability Report to Congress, FHFA stated, "To ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition." OIG agrees that effective supervision of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness. OIG has determined that FHFA's administration of its supervision responsibilities continues to be a critical risk. OIG identified this risk in prior management and performance challenges statements and reiterates here that FHFA is challenged to increase the robustness of its supervision over the entities it regulates.

Quantity and Quality of Examiners

OIG has previously reported that both DBR and DER lacked a sufficient number of examiners and that the Agency lacked an adequate number of commissioned examiners, both of which

placed the efficiency and effectiveness of FHFA's examination program at risk.[4] In response to our reports, FHFA committed to add examiners and has added examiners.

As regulator for the Enterprises and the FHLBanks, FHFA has long recognized that its examiners require certain skills and technical knowledge necessary to evaluate the condition and practices specific to them. In its 2011 report, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (Sept. 23, 2011) (EVL-2011-005), OIG found, among other things, that two-thirds of FHFA examiners were not commissioned: they had not completed a structured program of classroom and on-the-job training designed to provide technical competencies and practical examination experience. The Agency acknowledged that commissioned examiners were critical to strengthening the efficiency and effectiveness of its supervision of the regulated entities and that it lacked a sufficient number of commissioned examiners, and it agreed to monitor the development and implementation of an examiner commission program. In 2013, the Agency inaugurated its Housing Finance Examiner commission program that was designed to produce, in the next four years, a corps of commissioned examiners for its supervision of the Enterprises and of the FHLBanks. Our compliance review this year found that the commissioning program was not on track to graduate commissioned examiners with the knowledge, skills, and technical expertise necessary to conduct successful, risk-based examinations in the projected timeframe. OIG recommended, and FHFA agreed, to take steps to address shortfalls in the program.

Accurate, Complete, and High-Quality Examinations

In 2011, FHFA's Office of Quality Assurance (OQA), which is tasked with conducting internal reviews of DER and DBR examinations to enhance the effectiveness of FHFA's supervision, recommended that DER develop and implement a comprehensive quality control process. DER agreed to that recommendation in September 2012. In March 2013, FHFA issued a supervision directive in which it required formal internal quality control reviews to be conducted for all examinations conducted by DER and DBR.

DBR put into place formal internal quality control reviews. Notwithstanding DER's commitment in September 2012 to establish and implement formal quality control reviews for its examinations of the Enterprises and FHFA's March 2013 directive that such reviews be conducted for examinations, DER did not establish and implement a comprehensive internal quality control review process for its targeted examinations of the Enterprises. Only after OIG commenced an evaluation of this issue and completed its fieldwork did DER advise OIG that on July 28, 2015, a comprehensive internal quality control process had been launched. Without a comprehensive internal quality control review of DER examinations, FHFA lacked assurance that DER's targeted examinations were accurate, complete, and of uniform high quality, which put at risk the quality of its examination program for the Enterprises.

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[4] OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*, at 23, 31 (Sept. 23, 2011) (EVL-2011-005), online at www.fhfaoig.gov/Content/Files/EVL-2011-005.pdf; *Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises* (Dec. 19, 2013) (EVL-2014-002), online at www.fhfaoig.gov/Content/Files/EVL-2014-002.pdf.

Consistency of DER Examination Work

Observations made by OIG during its ongoing evaluation work of other DER programs has led us to question whether all DER examiners regularly follow the examination requirements set forth in FHFA's Examination Manual and DER's Operating Procedures Bulletins, which supplement the Examination Manual.

Records Management System

In 2014, OIG found that DER's recordkeeping practices impeded the efficient retrieval of workpapers by FHFA personnel and oversight organizations, including OIG. (OIG, *Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities* (Oct. 6, 2014) (EVL-2015-001) (online at www.fhfaoig.gov/Content/Files/EVL-2015-001.pdf).)

In that evaluation, OIG found that DER maintained no index or directory for the universe of workpapers, examination teams within DER used different document naming conventions, and electronic folders did not adhere to a cohesive, common structure. To strengthen records management, DER advised OIG that it would institute a practice in 2015 to align folder names with each team's examination plan. In addition, DER advised that it would use standardized workpaper folders in 2015 and would consider a permanent change. OIG's observations, from fieldwork conducted in 2015, are that little improvement has been made in DER's records management system.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its supervision responsibilities, in addition to the actions discussed above that it has committed to take relating to our remedial recommendations. OIG has not assessed the impact of these actions on FHFA's supervision responsibilities. For the first nine months of 2015, FHFA issued seven Advisory Bulletins addressing fraud risk management, information technology investment management, the rescission of guidance documents issued by OFHEO, Enterprise fraud reporting, FHLBank fraud reporting, FHLBank unsecured credit exposure reporting, and FHLBank core mission achievement. It approved the merger of the FHLBanks of Des Moines and Seattle in December 2014, which was finalized in May 2015. At the beginning of the fiscal year the Agency also reorganized personnel within its supervisory divisions, bringing the Agency's examination standards and examination execution groups together under one executive.

Challenge: Non-Bank Sellers

The Enterprises rely heavily on counterparties for a wide array of services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk—that the counterparty will not meet its contractual obligations. Generally, FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its regulatory responsibilities.

There are numerous counterparty relationships with the Enterprises and each carries risk. One critical counterparty risk is the risk posed by loan originators that are not depository institutions (also called non-banks). In recent years, the share of Enterprise single-family loan purchases from depository institutions has fallen while the share of purchases from non-banks has risen. Based on OIG analysis of Enterprise data, from 2010 to 2014, Fannie Mae's share of purchases of single-family loans from non-depository institutions increased from 17% to 49% ($187 billion), while Freddie Mac's share increased from 10% to 38% ($97 billion).

Non-bank sellers are not regulated by federal financial regulatory agencies and may not have the same financial strength, liquidity, or operational capacity needed to meet their obligations to the Enterprises as depository institutions. As a result, there is a risk that a non-bank seller that failed to honor its contractual obligations, such as by selling loans to an Enterprise that did not comply with the Enterprise's lending requirements, would not have sufficient capital or liquidity to honor repurchase demands by the Enterprises for non-compliant loans. FHFA and other financial market participants must address the implications of a changing marketplace, including the attendant risks from non-banks.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its supervision of the Enterprises in connection with non-bank sellers. OIG has not assessed the impact of these actions on FHFA's responsibilities. In December 2014, FHFA issued an Advisory Bulletin in which it articulated its supervisory expectation that the Enterprises will effectively manage counterparty risks and directed the Enterprises to implement a board-approved risk management framework that includes risk-based oversight of single-family seller/servicers. In May 2015, FHFA announced that the Enterprises were issuing new capital and liquidity requirements for non-depository sellers and servicers of single-family mortgages, effective December 31, 2015.

Challenge: Information Technology Security

In 2012, then-FBI Director Robert Mueller warned that "there are only two types of companies: those that have been hacked and those that will be. And even they are converging into one category: companies that have been hacked and will be hacked again." Recent cyber security incidents affecting the federal workforce illustrate the scope of potential attacks. The Office of Personnel Management (OPM), which provides personnel services to federal government agencies, said in one incident 4.2 million current and former federal employees had personnel data stolen. In a separate incident, OPM said that 21.5 million people had their Social Security numbers and other sensitive information stolen from databases containing background investigation information.

Cyber attacks from outside an organization come in numerous forms and include attack vehicles such as malicious software aimed at gaining control of a system or efforts compromising the availability of a system or network by overloading the network. Broadly speaking, external cyber attackers can be grouped into three categories: "hacktivists," who use digital tools to promote a political or social agenda; nation states; and criminals who may directly attack an

organization's system, or they may attack indirectly through a third party such as a vendor, contractor, or counterparty.

Information technology vulnerabilities also can come from inside an organization. Employees and contractors, current or former, with authorized access to an organization's network or data can exceed or misuse access and compromise the confidentiality, integrity, or availability of the organization's information or information systems. Even when an organization builds high barriers to protect its electronic assets from outsiders, it may have few protections against insiders. Insider threats can be particularly potent because insiders typically have greater access to sensitive information, a better understanding of internal processes, and an understanding of potential weaknesses in controls.

Larry Zelvin, the former Director of the National Cybersecurity and Communications Integration Center at the Department of Homeland Security, opined at a cyber security roundtable that, of the 16 critical infrastructure sectors in this country, "finance probably wins the cyber security threat award." He called the industry "a massive target" because it is "where the money is." The Enterprises own or guarantee $5 trillion in mortgage assets supporting the U.S. mortgage market. As part of their processes to guarantee or purchase loans, the Enterprises receive a substantial amount of information about mortgage borrowers, including financial data and personally identifiable information. Fannie Mae[5] and Freddie Mac[6] have been the subject of cyber attacks, although none caused significant harm. Similarly, the FHLBanks and their Office of Finance have not experienced material losses related to cyber attacks or other breaches.[7] All of the entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their information systems may be vulnerable to penetration. In this regard, the cyber threat to these entities is no different from the threat to other major financial institutions.

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[5] As disclosed by Fannie Mae in its 2014 Annual Report (*Form 10-K*): "From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the future."

[6] As disclosed by Freddie Mac in its 2014 Annual Report (*Form 10-K*): "Like many corporations and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyber attacks. Although we devote significant resources to protecting our various systems and processes, there is no assurance that our security measures will provide fully effective security."

[7] As disclosed by the FHLBank Office of Finance in the 2014 Annual Report (*FHLBanks Combined Financial Report for the Year Ended December 31, 2014*) (online at www.fhlb-of.com/ofweb_userWeb/resources/2014Q4Document-web.pdf): "To date, the FHLBanks and the Office of Finance have not experienced any material effect or losses related to cyber attacks or other breaches. . . . Although each of the FHLBanks and the Office of Finance takes measures to protect the security of its information systems, these actions may not be able to prevent or mitigate the negative effects of certain failures or breaches. As such, a failure or breach of information systems could disrupt and adversely affect an FHLBank's or the Office of Finance's ability to conduct and manage its business effectively and could also result in significant losses, reputational damage, or other harm."

As conservator, FHFA has delegated to the Enterprises the responsibility to manage the security of their computer systems, software, and networks to best protect them from cyber attacks, breaches, unauthorized access, misuse, computer viruses or other malicious codes, or other attempts. The FHLBanks and their Office of Finance are responsible for such security management. In light of the significant financial, governance, and reputational risks that could flow from a cyber attack on either of the Enterprises, any of the FHLBanks, and/or their Office of Finance, FHFA must ensure adequate supervision of the information technology security controls put into place at each of the entities it regulates.

Selected FHFA Actions Taken

We now summarize recent actions taken by FHFA relating to its supervision of the Enterprises and the FHLBanks in connection with cyber security. OIG has not assessed the impact of these actions on FHFA's responsibilities. In 2014, FHFA issued an Advisory Bulletin to provide guidance to the entities it regulates for a risk-based approach to cyber security management. The Advisory Bulletin requires each entity to select a cyber security standard it will follow and then sets forth, in broad terms, characteristics of a cyber risk management program that FHFA believes should enable the entities to safeguard their cyber environments.[8] FHFA also incorporated assessment of the adequacy of cyber security controls into its 2015 examination program.

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To best leverage OIG's resources, we determined to focus our work on programs and operations that pose the greatest financial, governance, operational, and reputational risks to FHFA, the Enterprises, and the FHLBanks. Accordingly, our Audit and Evaluation Plan aligns to the challenges outlined above. OIG remains focused on assessing the adequacy of the controls put into place by FHFA and at the entities regulated by FHFA to mitigate those risks.

[8] The characteristics are: proportionality; cyber risk management; risk assessments; monitoring and response; system, patch, and vulnerability management; third-party management; and privacy and data protection.

Appendix O: Figure Sources

Figure 1. Federal Housing Finance Agency Office of Inspector General, "Timeliness," *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*, EVL-2015-006, at 13 (September 30, 2015). Accessed: October 21, 2015, at www.fhfaoig.gov/Content/Files/EVL-2015-006.pdf.

Figure 2. Federal Housing Finance Agency Office of Inspector General, "More Than 20% of Enrolled Examiners in the HFE Program Had Completed No More than One of the Required Courses as of March 2015," *OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program*, COM-2015-001, at 13 (July 29, 2015). Accessed: October 21, 2015, at www.fhfaoig.gov/Content/Files/COM-2015-001.pdf.

Figure 3. Federal Housing Finance Agency Office of Inspector General, "FHFA Has Determined that Not All Requirements Under IPIA, as Amended, Are Applicable to FHFA," *FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2014*, AUD-2015-001, at 9 (May 14, 2015). Accessed: October 21, 2015, at www.fhfaoig.gov/Content/Files/AUD-2015-001_0.pdf.

Figure 4. Council of Inspectors General on Financial Oversight, "Background," *Audit of the Financial Stability Oversight Council's Monitoring of Interest Rate Risk to the Financial System: Report to the Financial Stability Oversight Council and the Congress*, CIGFO-2015-001, at 6 (July 27, 2015). Accessed: October 21, 2015, at www.treasury.gov/about/organizational-structure/ig/Documents/CIGFO%20Document/Audit%20of%20the%20Financial%20Stability%20Oversight%20Councils%20Monitoring%20of%20Interest%20Rate%20Risk.pdf.

Appendix P: Endnotes

1 12 U.S.C. § 4617(b)(2)(A), (B), (D) (2011). Accessed: October 28, 2015, at www.gpo.gov/fdsys/pkg/USCODE-2011-title12/pdf/USCODE-2011-title12-chap46-subchapII-sec4617.pdf.

2 Council of the Inspectors General on Integrity and Efficiency, "Followup," *Quality Standards for Inspection and Evaluation*, at 18 (January 2012). Accessed: October 23, 2015, at www.ignet.gov/sites/default/files/files/committees/inspect-eval/iestds12r.pdf.

3 See Freddie Mac Update July 2015 and Fannie Mae and Freddie Mac monthly volume summaries for market share information. For a discussion of the capital reserve and its reduction under PSPAs with Treasury, see OIG white paper *FHFA's Conservatorships of Fannie Mae and Freddie Mac: A Long and Complicated Journey*, WPR-2015-002 (March 25, 2015). Accessed: October 28, 2015, at www.fhfaoig.gov/Content/Files/WPR-2015-002_0.pdf. By operation of the PSPAs, the Enterprises' capital cushion will be eliminated over time. Given their paucity of capital, it is believed that the Enterprises meet the definition of "critically undercapitalized" set forth in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (the Safety and Soundness Act). However, shortly after FHFA placed the Enterprises in conservatorship, it suspended the statutory requirement that the Agency issue quarterly capital classifications. See FHFA press release *FHFA Announces Suspension of Capital Classifications During Conservatorship* (October 9, 2008). Accessed: October 28, 2015, at www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Suspension-of-Capital-Classifications-During-Conservatorship-and-Discloses-Minimum-and-RiskBased-Cap.aspx. The Safety and Soundness Act does not expressly permit the FHFA Director to suspend this requirement, but FHFA asserts that it suspended the requirement using its incidental powers. See FHFA final rule on Conservatorship and Receivership, 76 Fed. Reg. 35,724 (June 20, 2011) (to be codified at 12 C.F.R. pt. 1229 and 1237). Accessed: October 28, 2015, at www.gpo.gov/fdsys/pkg/FR-2011-06-20/pdf/2011-15098.pdf. FHFA currently does not publish the data necessary for third parties to determine whether the Enterprises meet the definition of "critically undercapitalized."

4 Federal Housing Finance Agency, Division of Housing Mission and Goals, *Quarterly Performance Report of the Housing GSEs: First Quarter 2015*, at 14-17 (June 29, 2015). Accessed: October 21, 2015, at www.fhfa.gov/AboutUs/Reports/ReportDocuments/PerformanceReportofHousingGSEs-1Q2015.pdf.

5 For a detailed discussion of the uncertainty of the Enterprises' future profitability, see Federal Housing Finance Agency Office of Inspector General, *The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured*, WPR-2015-001 (March 18, 2015). Accessed: October 28, 2015, at www.fhfaoig.gov/Reports/AuditsAndEvaluations.

6 Fannie Mae, *Form 10-K for the Fiscal Year Ended December 31, 2014*, at 25, 162. Accessed: October 28, 2015, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf. Freddie Mac, *Form 10-K for the Fiscal Year Ended December 31, 2014*, at 20. Accessed: October 28, 2015, at www.

freddiemac.com/investors/er/pdf/10k_021915.pdf.

7 See, e.g., Fannie Mae, *Form 10-K for the Fiscal Year Ended December 31, 2014*, at 25, 162. Accessed: October 28, 2015, at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf. Freddie Mac, *Form 10-K for the Fiscal Year Ended December 31, 2014*, at 20. Accessed: October 28, 2015, at www.freddiemac.com/investors/er/pdf/10k_021915.pdf.

8 For the full report and recommendations, see Federal Housing Finance Agency Office of Inspector General, *FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive*, EVL-2015-004 (March 11, 2015). Accessed: October 28, 2015, at www.fhfaoig.gov/Reports/AuditsAndEvaluations.

9 For the full report and recommendations, see Federal Housing Finance Agency Office of Inspector General, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*, EVL-2015-006 (September 30, 2015). Accessed: October 28, 2015, at www.fhfaoig.gov/Reports/AuditsAndEvaluations.

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11 Federal Bureau of Investigation, *Remarks of FBI Director Robert S. Mueller, III to RSA Cyber Security Conference in San Francisco, CA* (March 1, 2012). Accessed: October 28, 2015, at www.fbi.gov/news/speeches/combating-threats-in-the-cyber-world-outsmarting-terrorists-hackers-and-spies.

12 Federal Housing Finance Agency Office of Inspector General, *Cyber Security: An Overview of FHFA's Oversight of and Attention to the Enterprises' Management of Their IT Infrastructures*, WPR-2015-003 (March 31, 2015). Accessed: October 21, 2015, at www.fhfaoig.gov/Content/Files/WPR-2015-003.pdf.

13 Securities and Exchange Commission, *Cybersecurity Roundtable, Statement of Larry Zelvin* (March 26, 2014). Accessed: October 28, 2015, at www.sec.gov/news/otherwebcasts/2014/cybersecurity-roundtable-032614.shtml.

14 12 U.S.C. § 5321(b) (2014). Accessed: October 28, 2015, at www.gpo.gov/fdsys/pkg/USCODE-2014-title12/pdf/USCODE-2014-title12-chap53-subchapI-partA-sec5321.pdf.

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