

**REDACTED**

Federal Housing Finance Agency  
Office of Inspector General



**DER's Supervision and Oversight  
of the Enterprises' Purchases of  
Single-Family Loans in Special Flood  
Hazard Zone Areas Were Effective,  
But Improvements Are Needed**

This report contains redactions of information that is privileged or otherwise protected from disclosure under applicable law.

Audit Report • AUD-2024-009 • September 18, 2024

## ..... EXECUTIVE SUMMARY .....

### PURPOSE

Floods are the most common and costly natural disasters in the United States. Under the National Flood Insurance Act, as a condition of receiving a federally backed loan, mortgage lenders must require a borrower whose property is within a Special Flood Hazard Area (SFHA) to obtain flood insurance at purchase and maintain it throughout the life of the loan. We performed this audit to assess the effectiveness of the Federal Housing Finance Agency (FHFA or the Agency) Division of Enterprise Regulation's (DER) supervision and oversight of Fannie Mae's and Freddie Mac's (the Enterprises) purchases of single-family loans for properties located in SFHAs.

### RESULTS

We found that DER conducted effective supervision and oversight of the Enterprises' purchases of single-family loans for properties located in SFHAs. Specifically, DER performed examination activities to assess the Enterprises' processes for purchasing single-family loans for properties located in SFHAs. DER issued Matters Requiring Attention (MRAs) that required the Enterprises to take corrective actions to resolve identified deficiencies. Further, DER ensured that the Enterprises implemented corrective actions, which strengthened their processes for ensuring loan sellers and servicers' (hereinafter seller/servicers) compliance with flood insurance requirements.

Although DER conducted effective oversight, improvements are needed. We found that DER's examination procedures were inconsistent for assessing the Enterprises' oversight of seller/servicers' compliance with flood insurance requirements. Furthermore, DER did not document its sampling methodology for the selection of loan files tested and the analyses to support flood insurance compliance at Freddie Mac.

### RECOMMENDATIONS

We made three recommendations to address our findings. In a written response, FHFA management agreed with our recommendations.

This report was prepared by Andrea Smith, Audit Director; Mike Rivera, Audit Manager; and Michael Schumann, Auditor; with assistance from Abdil Salah, Assistant Inspector General for Audits. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report. This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaoig.gov](http://www.fhfaoig.gov), and [www.oversight.gov](http://www.oversight.gov).

James Hodge  
Deputy Inspector General for Audits /s/

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## ABBREVIATIONS .....

DER	Division of Enterprise Regulation
Enterprises	Fannie Mae and Freddie Mac
FEMA	Federal Emergency Management Agency
FFIEC	Federal Financial Institutions Examination Council
FHFA or Agency	Federal Housing Finance Agency
GAO	U.S. Government Accountability Office
MRA	Matter Requiring Attention
NFIP	National Flood Insurance Program
OIG	Federal Housing Finance Agency Office of Inspector General
OPB	Operating Procedures Bulletin
QC	Quality Control
SFHA	Special Flood Hazard Area

## BACKGROUND.....

FEMA reported that floods are the most common and costly natural disasters in the United States.<sup>1</sup> Further, the National Oceanic and Atmospheric Administration reported that floods cause an average of \$5 billion in damages each year.<sup>2</sup> Recognizing the risk of property damage and loss of life, Congress enacted the National Flood Insurance Act of 1968, which established the National Flood Insurance Program (NFIP). The NFIP, administered by FEMA, makes federally backed flood insurance available to consumers.

The availability of flood insurance was not sufficient to ensure its use, however. This was brought to Congress' attention in 1972 in the wake of Hurricane Agnes. That hurricane caused \$3 billion in damages and, although flood insurance was available at the time, Congress found that there were fewer than 100,000 flood insurance policies nationwide.

As a result, in 1973, Congress went a step further by enacting the Federal Disaster Protection Act, a statute mandating that lenders require flood insurance on federally insured loans located within high-risk flood areas called Special Flood Hazard Areas (SFHAs). SFHAs are FEMA-designated areas that have a one percent or higher chance of experiencing a flood each year. In 1994, Congress further strengthened the requirements in the 1973 Act by enacting the National Flood Insurance Reform Act of 1994. By law, federal agencies and federally regulated lending institutions must require property owners located in SFHAs to purchase flood insurance as a condition of any mortgage that these entities make, guarantee, or purchase.<sup>3</sup> The National Flood Insurance Reform Act requires the Enterprises to implement procedures reasonably designed to ensure that mortgage loans they purchase are covered by adequate flood insurance during the term of the loan if the property is located in an SFHA. To ensure compliance with those legal requirements, FHFA issued regulations<sup>4</sup> in 2009 that codify the statutory requirements as they affect the operations of Fannie Mae and Freddie Mac.

As of December 31, 2023, Fannie Mae and Freddie Mac estimated that 3.2 percent and 2.9 percent of their single-family mortgage loans are for properties located in SFHAs, respectively.

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<sup>1</sup> FEMA, [Fact Sheet: Myths and Facts about Flood Insurance](#) (accessed July 15, 2024).

<sup>2</sup> United States, Department of Commerce, National Oceanic and Atmospheric Administration, National Severe Storms Laboratory, [Severe Weather 101: Frequently Asked Questions About Floods](#) (accessed July 26, 2024).

<sup>3</sup> Loans secured by properties outside of SFHAs are not required to carry flood insurance. Further, property insurance differs from flood insurance in that it covers loss from risks such as fire, lightning, windstorm, and hail. It typically does not provide coverage due to flooding. Separate flood insurance is needed to cover loss due to flooding.

<sup>4</sup> FHFA's Flood Insurance Final Regulation is codified at 12 C.F.R. § 1250.

## The Role of the Enterprises, Sellers, and Servicers to Ensure Compliance with Flood Insurance Requirements

As a practical matter, the Enterprises do not originate or service mortgage loans and do not directly interact with borrowers to ensure they obtain and maintain required flood insurance. Instead, the Enterprises contract with seller/servicers to originate and service the loans they purchase,<sup>5</sup> and require those seller/servicers to ensure that loans for properties located in SFHAs contain the required flood insurance.

These seller/servicers are counterparties to the Enterprises, and FHFA expects that the Enterprises take certain actions to manage risks associated with their relationship. Specifically, FHFA Advisory Bulletin 2014-07, *Oversight of Single-Family Seller/Servicer Relationships*, communicates FHFA’s supervisory expectation that the Enterprises assess financial, operational, legal, compliance, and reputation risks associated with its single-family seller/servicer counterparties and that they take appropriate action to reduce those risks. As relevant here, the Enterprises use their seller/servicer requirements<sup>6</sup> and other quality control (QC) review procedures to ensure that their seller/servicers comply with flood insurance requirements. Specifically, the Enterprises require that:

- Sellers document flood insurance compliance using the required FEMA Standard Flood Hazard Determination Form<sup>7</sup> and proof of flood insurance, if applicable.
- Servicers ensure flood insurance compliance throughout the life of the loan. This includes monitoring flood map changes and identifying properties that require flood insurance due to being remapped into an SFHA. Servicers must purchase lender-placed insurance if a borrower fails to obtain or maintain required flood insurance.<sup>8</sup>

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<sup>5</sup> Sellers, also referred to as lenders, originate mortgage loans and ensure proper flood insurance documentation. Servicers collect principal and interest, taxes, flood insurance, and property insurance payments and perform necessary loan administration functions for mortgages.

<sup>6</sup> The Enterprises’ requirements are defined in Fannie Mae’s Single-Family Selling Guide, Fannie Mae’s Single-Family Servicing Guide, and the Freddie Mac Single-Family Seller/Servicer Guide.

<sup>7</sup> The Standard Flood Hazard Determination Form is required for all federally backed loans and is used by lenders to determine the flood risk for their building loans. Those loans with properties located in SFHAs require flood insurance.

<sup>8</sup> Lender-Placed Insurance is also known as “force-placed” or “creditor-placed” insurance. If a borrower allows insurance coverage to lapse and does not respond to a servicer’s requests to provide sufficient coverage, the servicer assigns the borrower lender-placed insurance to protect an Enterprise’s financial interest. Lender-placed insurance premiums are generally higher than those for borrower-purchased insurance.

## DER's Supervision and Oversight of the Enterprises' Purchases of Single-Family Loans in FEMA-Designated SFHAs

As noted above, the National Flood Insurance Reform Act of 1994 and FHFA's flood insurance regulations require the Agency to oversee and enforce the Enterprises' flood insurance compliance. Per FHFA regulations, FHFA may assess civil monetary penalties if an Enterprise fails to implement procedures reasonably designed to ensure flood insurance compliance.

DER conducts annual targeted examinations and ongoing monitoring activities of the Enterprises<sup>9</sup> using the FHFA Examination Manual and supplemental examination guidance, and the Enterprise Examination Manual. However, these documents do not include procedures specific to flood insurance compliance. In addition, DER uses operating procedures bulletins (OPBs) to set forth DER's internal operating procedures and standards to which practices should conform.

DER may issue adverse examination findings ranging from recommendations to Matters Requiring Attention (MRAs).<sup>10</sup> DER's OPB, Adverse Examination Findings, governs processes and documentation standards for issuing, monitoring, and closing adverse examination findings.

## OBJECTIVE AND SCOPE .....

The objective of our audit was to assess the effectiveness of DER's supervision and oversight of the Enterprises' purchases of single-family loans for properties located in FEMA-designated flood zones. The scope of our audit covered DER's supervisory activities from January 1, 2018, through December 31, 2021, for Freddie Mac and January 1, 2021, through January 31, 2024, for Fannie Mae.

For details on our audit methodology, see Appendix I.

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<sup>9</sup> DER's Supervisory Planning OPB states that ongoing monitoring activities assess risk areas and/or activities that warrant continuous oversight, and targeted examinations evaluate risk areas that warrant a more in-depth review.

<sup>10</sup> AB 2017-01, [Classifications of Adverse Examination Findings](#), establishes the classifications of adverse findings at the Enterprises. MRAs are either critical supervisory matters or deficiencies. Critical supervisory matters are those findings that pose a substantial risk to the safety and soundness of an Enterprise. Deficiencies are those findings that could, if not corrected, escalate and potentially have a negative effect on the condition, financial performance, risk profile, operations, or reputation of an Enterprise.

## RESULTS .....

We found that DER conducted effective supervision and oversight of the Enterprises' purchases of single-family loans for properties located in FEMA-designated SFHAs, but improvements are needed. During the scope of this audit, DER conducted one examination activity at Fannie Mae and two examination activities at Freddie Mac to assess the Enterprises' purchases of single-family loans for properties located in SFHAs and their oversight of seller/servicers' compliance with flood insurance requirements. Although DER's examination manuals do not include procedures specific to flood insurance compliance, DER performed the following oversight activities:

- Prepared risk assessments that identified the risk of inadequate flood insurance compliance programs at the Enterprises.
- Identified the Enterprises' procedures to reasonably ensure all loans for properties in SFHAs contained a FEMA Standard Flood Hazard Determination Form and required flood insurance at the time of purchase.
- Assessed the design of and tested Fannie Mae's procedures to ensure acquisition of flood insurance at the time of purchase, in accordance with FHFA's Flood Insurance Final Regulation.
- Assessed the design of and tested the Enterprises' procedures to monitor flood insurance compliance during the term of the loan in accordance with FHFA's Flood Insurance Final Regulation. This included assessing the Enterprises' oversight of flood insurance compliance, flood maps, and action taken when a property was mapped into an SFHA.
- Prepared targeted examination workpapers that comply with its OPBs for the one examination performed at Fannie Mae.
- Prepared ongoing monitoring workpapers that generally complied with its OPBs for the two examinations performed at Freddie Mac, with an exception noted in Finding 2.
- Issued MRAs to the Enterprises to strengthen their processes for ensuring flood insurance compliance. Specifically, DER required Fannie Mae to (1) [REDACTED] and (2) [REDACTED].<sup>11</sup> DER required Freddie Mac to (1) [REDACTED] and (2) [REDACTED].

<sup>11</sup> Large servicers participate in Fannie Mae's Servicer Total Achievement and Rewards (STAR) oversight program. Servicers that meet certain requirements, such as servicing 40,000 or more loans, must participate. Small servicers are those that do not meet the STAR oversight program requirements.



[REDACTED]. Further, DER timely assessed the Enterprises' remediation of these [REDACTED] MRAs in accordance with its OPBs. Examiners documented (a) conclusions on the adequacy of the Enterprises' remediation plans, (b) each remediation's progress, and (c) independent assessments of the corrective actions.

As described in the findings below, we identified areas in which DER should strengthen its supervision of the Enterprises' purchases of single-family loans for properties located in SFHAs.

### **Finding 1: DER's Examination Procedures Were Inconsistent for Assessing the Enterprises' Oversight of Seller/Service's Compliance with Flood Insurance Requirements**

The FHFA Examination Manual and the Enterprise Examination Manual do not provide DER examiners with procedures to assess the Enterprises' specific processes for purchasing and monitoring single-family loans for properties located in SFHAs. The manuals, including related modules and work programs, also do not include specific procedures to assess the Enterprises' oversight of seller/service's compliance with flood insurance requirements.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires that management design control activities to achieve objectives and implement control activities through policies. DER's OPBs require examiners to consider examination procedures that have already been established in modules and work programs when designing the work to be performed. Furthermore, the Federal Financial Institutions Examination Council (FFIEC) has developed interagency examination procedures to use as a resource to assess flood insurance compliance, promote consistency in the examination process, and communicate supervisory expectations.<sup>12</sup>

Although an FHFA official stated that DER had not originally contemplated developing such examination procedures, it will now consider establishing them to provide consistency to its oversight. The official further explained that DER is undergoing a multi-year project to update examination modules and work programs, which will consider examination procedures to assess the Enterprises' flood insurance compliance.

Without defined examination procedures, examiners did not take a consistent approach to assessing flood insurance compliance at Fannie Mae compared to Freddie Mac. Specifically,

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<sup>12</sup> FHFA has noted that when developing its examination guidance, it considers the guidance by the FFIEC. The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau. The FFIEC also makes recommendations to promote uniformity in the supervision of financial institutions.

each Enterprise has a QC process to review and test a sample of loan files at the time of purchase to ensure flood insurance compliance. The DER examination team for Fannie Mae reviewed and tested a sample of Fannie Mae's QC reviews and determined they were being [REDACTED]

[REDACTED]. Because examiners did not perform similar tests of Freddie Mac, DER did not assess Freddie Mac's QC process or their seller/servicers' compliance with flood insurance requirements.

## Recommendations

We recommend the DER Deputy Director:

1. Update examination manuals to include specific procedures to assess the Enterprises' oversight of seller/servicers' flood insurance compliance.
2. Ensure examiners perform and document examination activities to assess whether Freddie Mac implemented procedures reasonably designed to ensure that mortgage loans they purchase are covered by adequate flood insurance if the property is located in a Special Flood Hazard Area.

## Finding 2: DER Did Not Document Its Sampling Methodology and Analysis to Support Flood Insurance Compliance at Freddie Mac

In their 2018 ongoing monitoring activities' workpapers, DER examiners stated that they tested 20 Freddie Mac loan files for seller/servicers' flood insurance compliance. DER concluded that

[REDACTED] However, we found that DER did not document its sampling approach for selecting the 20 loans to review or the Examiner-in-Charge's approval of it. Furthermore, DER examiners did not include the FEMA Standard Flood Hazard Determination Forms or their analysis of them in the examination workpapers to support their conclusions. Finally, DER did not select any loan files with properties in SFHAs, a decision that prevented the examiner from testing whether Freddie Mac obtained proper flood insurance documentation when required.

FHFA Examination Practices Bulletin 2014-01, Sampling Practices in Examinations, states that workpapers are required to contain sufficient detail to provide a clear understanding of the examination work performed. Further, examiners are required to document the sampling methodology, testing results, and examination conclusions in the appropriate examination workpapers. The sampling methodology must be approved by the Examiner-in-Charge.

DER could not provide the root cause as to why the analyses and the sampling methodology with EIC approval were not documented. A DER official stated that the reviews were "compliance

checks” to confirm that the 20 loan files contained a FEMA Standard Flood Hazard Determination Form and properties were not located in SFHAs. The same official acknowledged that the examiners should have documented the specifics of these reviews, including the sampling methodology.

Without documenting the analysis for the work performed, DER examiners cannot support their conclusions of flood insurance compliance. Furthermore, without documentation to support the sampling methodology and the Examiner-in-Charge’s approval, the sample size cannot be supported as appropriate for the analysis performed. This noncompliance with examination sampling guidance increases the risk that sampling might not be conducted as intended. Accordingly, there is an increased risk that tests using these samples will not produce sufficient evidence to support examination conclusions or detect concerns in the Enterprises’ compliance with flood insurance requirements.

### **Recommendation**

We recommend that the DER Deputy Director:

3. Reinforce to examination staff through reminders, training, or other communication, their responsibilities under Examination Practices Bulletin 2014-01 to document the sampling methodology, Examiner-in-Charge approval, and testing or analysis results to support examination conclusions.

## **FHFA COMMENTS AND OIG EVALUATION.....**

We provided FHFA management an opportunity to review and provide technical comments to a draft of this audit report. We considered those comments in finalizing this report. In a written response, FHFA management agreed with our recommendations and plans to:

1. Create targeted examination procedures to assess the Enterprises’ oversight of seller/servicers’ flood insurance compliance by June 30, 2025.
2. Conduct an examination activity to assess whether Freddie Mac has implemented procedures reasonably designed to ensure that its mortgage loans in SHFAs are covered by flood insurance by August 29, 2025.

3. Provide refresher training to appropriate DER staff on the sampling guidance communicated in Examination Practices Bulletin (EPB) 2014-01, Sampling Practices in Examinations, by November 22, 2024.

We consider FHFA's planned corrective actions responsive to the recommendations. FHFA's written response, in its entirety, is included as Appendix II to this report.

## APPENDIX I: METHODOLOGY.....

To accomplish our objective, we performed the following procedures.

- Reviewed Government Accountability Office’s *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) and determined that the risk assessment and control activity components of internal control were significant to this objective and focused on the underlying principles that management should: (1) identify, analyze, and respond to risks related to achieving the defined objectives and (2) design and implement control activities through policies.
- Reviewed the following flood insurance laws, statutes, and regulations to determine the flood insurance requirements applicable to FHFA, the Enterprises, and the mortgage loans purchased by the Enterprises:
  - The National Flood Insurance Act of 1968
  - The Flood Disaster Protection Act of 1973
  - The National Flood Insurance Reform Act of 1994
  - The Biggert-Waters Flood Insurance Reform Act of 2012
  - The Homeowner Flood Insurance Affordability Act of 2014
  - FHFA’s Flood Insurance Final Regulation, 12 C.F.R. Part 1250 (Flood Insurance)
- Assessed the Fannie Mae Single-Family Selling Guide, Fannie Mae Single-Family Servicing Guide, and the Freddie Mac Single-Family Seller/Servicer Guide to determine the flood insurance compliance requirements for seller/servicers.
- Evaluated FHFA’s Examination Manual and Enterprise Examination Manual to determine the extent to which examination modules and work programs provided examination procedures to assess the Enterprises’ compliance with the flood insurance requirements identified in the flood insurance laws, Fannie Mae Selling Guide, Fannie Mae Servicing Guide, and Freddie Mac Seller/Servicer Guide. We also assessed whether other federal regulators from the FFIEC established examination guidance to assess flood insurance compliance.

- Reviewed the following FHFA Examination Practices Bulletin and DER OPBs to identify requirements for DER’s supervision of the Enterprises’ compliance with flood insurance requirements:
  - FHFA Examination Practices Bulletin, Sampling Practices in Examinations, (February 2014)
  - DER OPB, DER Supervisory Activities (2013-DER-OPB-04) (September 19, 2013)
  - DER OPB, Enterprise Supervisory Risk Assessments (June 17, 2019; updated February 24, 2020)
  - DER OPB, Risk Assessments (April 29, 2022)
  - DER OPB, Examination Planning Process (April 1, 2019; updated February 24, 2020)
  - DER OPB, Supervisory Planning – Pilot Program for 2021 (September 3, 2021)
  - DER OPB, Supervisory Planning (November 18, 2022)
  - DER OPB, Examination Processes and Documentation: Ongoing Monitoring (DER-OPB-2.2) (December 11, 2018)
  - DER OPB, Targeted Examinations (December 31, 2020; updated August 29, 2022)
  - DER OPB, Independent Quality Control Process (January 23, 2018; updated February 24, 2020)
  - DER OPB, Quality Control Program (March 2, 2023)
  - DER OPB, Examination Processes and Documentation: Issuance of Adverse Examination Findings and Assessment of MRA Remediation (October 31, 2018)
  - DER OPB, Issuance of Adverse Examination Findings and Assessment of MRA Remediation Examination Processes and Documentation (February 24, 2020)
  - DER OPB, Remediation (December 31, 2020)
  - DER OPB, Adverse Examination Findings: Issuing, Monitoring, and Closing (January 4, 2022)
  - DER OPB, Adverse Examination Findings (November 25, 2022; effective January 1, 2023)

- Reviewed prior OIG and GAO reports to identify findings and recommendations related to flood insurance requirements to determine their impact, if any, on our audit:
  - OIG, [\*Disaster Risk for Enterprise Single-Family Mortgages\*](#) (March 23, 2021) (WPR-2021-004)
  - GAO, [\*National Flood Insurance Program, Congress Should Consider Updating the Mandatory Purchase Requirement\*](#) (July 2021) (GAO-21-578)
- Interviewed DER personnel to understand DER’s processes for conducting oversight of the Enterprises’ purchases of single-family loans in SFHAs. Obtained written responses from DER personnel to address questions and observations related to audit testing procedures. DER personnel included a Principal Program Analyst and examination staff responsible for conducting oversight of the Enterprises’ purchases of single-family loans in SFHAs.
- Interviewed Fannie Mae and Freddie Mac personnel to gain an understanding of their purchases of single-family loans in SFHAs and the extent of their coordination with FEMA regarding flood insurance issues.
- Reviewed supervisory planning activities (i.e., risk assessments, supervisory priorities, and supervisory strategies) for calendar years 2018 through 2023 examination cycles to determine whether DER documented an assessment of flood insurance risks in accordance with DER OPBs.
- Analyzed the work performed for all three DER examinations that focused on the Enterprises’ purchases of single-family loans in SFHAs from January 1, 2018, through January 31, 2024. This included a targeted examination at Fannie Mae and two ongoing monitoring activities at Freddie Mac. We assessed whether these examination procedures addressed flood insurance risks identified in DER risk assessments and provided coverage of the Enterprises’ flood insurance compliance requirements. We also tested DER’s compliance with examination guidance, including FHFA’s Examination Practices Bulletin on sampling, and DER’s OPBs governing the planning and performance of supervisory activities.
- Analyzed the work performed for all [REDACTED] MRAs issued by DER that focused on the Enterprises’ purchases of single-family loans in SFHAs from January 1, 2018, through January 31, 2024. We assessed whether DER ensured that the Enterprises implemented corrective actions to resolve the deficiencies identified in these [REDACTED] MRAs and monitored, remediated, and closed the MRAs in compliance with DER OPBs, Adverse Examination Findings, and applicable preceding DER OPBs.

We conducted this performance audit from January 2024 to September 2024 at our headquarters in Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## APPENDIX II: FHFA MANAGEMENT RESPONSE.....

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# Federal Housing Finance Agency

## MEMORANDUM

TO: James Hodge, Deputy Inspector General for Audits, Office of Inspector General

FROM: Christopher Bosland, Acting Deputy Director, Division of Enterprise Regulation

SUBJECT: Draft Audit Report: *DER's Supervision and Oversight of the Enterprises' Purchase of Single-Family Loans in Special Flood Hazard Areas Were Effective, But Improvements Are Needed*

DATE: September 6, 2024

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CHRISTOPHER  
BOSLAND

Digitally signed by CHRISTOPHER  
BOSLAND  
Date: 2024.09.06 11:26:22 -0400

Thank you for the opportunity to respond to the above-referenced Office of Inspector General (OIG) draft report (Report). The objective of the OIG audit was to assess the effectiveness of the Division of Enterprise Regulation's (DER) supervision and oversight of the Enterprises' purchase of single-family loans for properties located in Federal Emergency Management Agency (FEMA)-designated Special Flood Hazard Areas (SFHA). The scope of the audit covered DER's supervisory activities from January 1, 2018, through December 31, 2021, for Freddie Mac and January 1, 2021, through January 31, 2024, for Fannie Mae.

We are pleased that the Report found that DER conducted effective supervision and oversight of the Enterprises' purchase of single-family loans for properties in FEMA-designated SFHAs. The Report also noted areas for improvement and makes three recommendations, with which we agree.

**Recommendation 1:** *Update examination manuals to include specific procedures to assess the Enterprises' oversight of seller/servicers' flood insurance compliance.*

**Management Response:** FHFA agrees with the recommendation. By June 30, 2025, DER will create targeted examination procedures to assess the Enterprises' oversight of seller/servicers' flood insurance compliance.

**Recommendation 2:** *Ensure examiners perform and document examination activities to assess whether Freddie Mac implemented procedures reasonably designed to ensure that mortgage loans they purchase are covered by adequate flood insurance if the property is located in a SFHA.*

**Management Response:** FHFA agrees with the recommendation. By August 29, 2025, DER will conduct an examination activity to assess whether Freddie Mac has implemented procedures reasonably designed to ensure that its mortgage loans in SHFAs are covered by flood insurance.

**Recommendation 3:** *Reinforce to examination staff through reminders, training, or other communication, their responsibilities under Examination Practices Bulletin 2014-01 to document the sampling methodology, Examiner-in-Charge approval, and testing or analysis results to support examination conclusions.*

**Management Response:** FHFA agrees with the recommendation. By November 22, 2024, DER will provide refresher training to appropriate DER staff on the sampling guidance communicated in Examination Practices Bulletin (EPB) 2014-01: *Sampling Practices in Examinations*.

I would like to acknowledge the professionalism and courtesy of the OIG staff who conducted this audit and thank you for your contributions to help the Agency improve its supervision program.

If you have any questions related to our response, please contact Eric Wilson.

cc: John Major  
Eric Wilson

## Federal Housing Finance Agency Office of Inspector General

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

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