

Federal Housing Finance Agency
Office of Inspector General



Inspection: FHFA Oversight of Freddie Mac's Issuance of Suspicious Activity Reports

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

Inspection • COM-2025-005 • March 27, 2025

..... EXECUTIVE SUMMARY

PURPOSE

In 2014, the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) issued a rule that requires the Enterprises (Fannie Mae and Freddie Mac) to report suspicious activities - including possible money laundering or mortgage fraud - to FinCEN. The Federal Housing Finance Agency (FHFA) has the statutory authority and responsibility to examine the Enterprises, to include evaluating the adequacy of their suspicious activity reporting. Our objective was to assess whether and to what extent FHFA’s Division of Enterprise Regulation (DER) followed selected steps from its Examination Manual in its oversight of Freddie Mac’s reporting of suspicious activity in its single-family line of business.

RESULTS

In 2022, FHFA’s Division of Accounting and Financial Standards (DAFS), acting on DER’s behalf, performed an examination of suspicious activity reporting focused on single-family policies during our review period (March 1, 2021, through March 1, 2024). During this examination, DAFS determined that Freddie Mac [REDACTED] and recommended corrective actions to address these concerns.

This inspection reviewed a representative sample of 12 Freddie Mac transactions from those DAFS reviewed during the 2022 examination to determine whether the Agency adhered to its examination guidance in overseeing Freddie Mac’s SAR reporting. We found that:

1. DAFS noted correctly that Freddie Mac filed SARs for [REDACTED] of the 12 transactions, and that [REDACTED] of the [REDACTED]
2. DAFS concluded correctly that, for each of the [REDACTED] instances in which Freddie Mac did not file a SAR, it documented its decision properly.
3. DAFS noted correctly that [REDACTED] of the [REDACTED] sampled SARs contained narratives that described the suspicious activity sufficiently. DAFS identified the deficient narrative in the remaining SAR, but did not require the Enterprise to correct the issue.

RECOMMENDATIONS

We make two recommendations to address our finding. In a written management response, FHFA agreed with our recommendations and committed to implement corrective actions.

This report was prepared by Karen Van Horn, Senior Investigative Counsel, and Kristopher Brash Dixon, Program Analyst, with assistance from Omolola Anderson, Senior Statistician. 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.fhfaig.gov, and www.oversight.gov.

/s/

Brian W. Baker
Deputy Inspector General
Office of Compliance

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ABBREVIATIONS

AML	Anti-Money Laundering Program
BSA	Bank Secrecy Act
DAFS	Division of Accounting and Financial Standards
DER	Division of Enterprise Regulation
Enterprises	Fannie Mae and Freddie Mac, collectively
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
FinCEN Rule	Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Housing Government Sponsored Enterprises
MRA	Matter Requiring Attention
Module	Financial Crimes Risk Management Module
SAR	Suspicious Activity Report
Work Program	BSA/AML Work Program

BACKGROUND.....

The Enterprises Are Required to Report Suspicious Activity

The Enterprises have fraud reporting obligations under the Bank Secrecy Act (BSA), which authorizes the U.S. Department of the Treasury to require financial institutions to keep records and file reports of suspected fraud. FinCEN enforces compliance with the BSA and its associated regulations.

The FinCEN Rule and FHFA Examination Guidance

A federal rule (the FinCEN Rule) requires financial institutions to implement an Anti-Money Laundering (AML) Program and to report all known or suspected violations of law or suspicious activities – including suspected money laundering and mortgage fraud – to FinCEN, in a submission known as a Suspicious Activity Report (SAR). The Enterprises are considered “financial institutions” for purposes of the FinCEN rule.¹

Information provided in SARs allows FinCEN and federal banking agencies to identify emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions.

Federal financial regulators, such as FHFA, conduct examination activity regarding their regulated entities’ adherence to SAR filing requirements under the FinCEN Rule. The Federal Financial Institutions Examination Council (FFIEC)’s BSA/AML Manual, which was developed to ensure consistency in the application of BSA/AML requirements, provides guidance to examiners conducting these examinations. FHFA’s Financial Crimes Risk Management Module (Module) governs such examinations of the Enterprises, including those pertaining to SAR filing.² The Module, which provides instructions for FHFA examiners, lists the FFIEC BSA/AML Manual as a resource that may be helpful to examiners.

SAR Filing Requirements

The Enterprises are required to file SARs in accordance with the FinCEN Rule. An Enterprise is required to file a SAR within 30 days of the date on which it becomes aware of a transaction

¹ In 2014, the Financial Crimes Enforcement Network (FinCEN), a bureau of the Department of the Treasury, defined the Enterprises as financial institutions for the BSA’s purposes. See *Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Housing Government Sponsored Enterprises*, 79 Fed. Reg. 10365, codified at 31 C.F.R. Parts 1010 and 1030 (FinCEN Rule).

² The Module is intended to help FHFA examiners evaluate the effectiveness of the Enterprise’s financial crimes risk management programs related to the FinCEN Rule and other regulations.

conducted or attempted by, at, or through the Enterprise, which involves or aggregates funds or other assets of at least \$5,000, and which the Enterprise knows, suspects, or has reason to suspect:

- Involves funds derived from illegal activity or is intended or conducted to hide or disguise funds or assets derived from illegal activity;
- Is designed, whether through structuring or other means, to evade any requirements of the FinCEN rule or any other regulations established under the BSA;
- Has no business or apparent lawful purpose, or is not the sort in which the customer would normally be expected to engage, and the Enterprise knows of no reasonable explanation for the transaction after examining the available facts; or
- Involves use of the Enterprise to facilitate criminal activity.³

Failure to comply with BSA requirements exposes an Enterprise to enforcement actions, including civil and criminal penalties, as well as to operational and reputational risk. As with other financial institutions required to file SARs, an Enterprise does not have to be certain that illegal activity has occurred before filing a SAR, nor is it required to investigate whether illegal activity has occurred.

A determination as to whether a SAR is required must be based on all the facts, circumstances, and information to which the Enterprise has access, in the ordinary course of business, relating to the transaction and the Enterprise customer in question. Different fact patterns and circumstances will require different judgments.⁴

SAR Narrative

The FinCEN Rule requires SAR narratives to be filed according to specific FinCEN instructions. These instructions state:

The narrative section of the report is critical to understanding the nature and circumstances of the suspicious activity. The care with which the narrative is completed

³ 31 C.F.R § 1030.320(a)(2)(i)-(iv).

⁴ Transactions that might, depending on the circumstances, present higher BSA/AML risks, and therefore may need to be more closely evaluated for suspicious activity, include those involving: 1) Real Estate Owned properties; 2) a foreign party; 3) loan repurchases; 4) delinquent loans; 5) sellers or servicers with a known history of enforcement actions for deficient BSA/AML compliance; 6) sellers or servicers not subject to BSA/AML requirements; 7) loans placed on an Enterprise watch list; 8) international wire transfers; 9) activities outside an Enterprise's normal course of business; and 10) counterparties located in high-risk geographic locations, such as High Intensity Drug Trafficking Areas, High Intensity Financial Crime Areas, or areas subject to a FinCEN Geographic Targeting Order.

may determine whether the described activity and its possible criminal nature are clearly understood by investigators. Filers must provide a clear, complete, and concise description of the activity, including what was unusual or irregular that caused suspicion.

FinCEN prescribes a checklist for details that financial institutions must include in their SARs, including information about the subject, the amounts involved and the nature of the suspicious activity. To assist financial regulators in conducting BSA/AML examinations of financial institutions, the FFIEC BSA/AML Manual includes the FinCEN Rule's narrative requirements.

According to the FFIEC's BSA/AML Manual, financial institutions' SARs must be complete, thorough and timely to comply with the FinCEN Rule. A SAR's narrative section provides the financial institution with dedicated space in which to summarize the alleged suspicious activity. The detail included in the narrative may be essential to ensuring that law enforcement clearly understands the described activity and its possible criminal nature; thus, an inadequate description of the factors making a transaction or activity suspicious could undermine the SAR's purpose.

According to FinCEN's SAR filing instructions, a SAR narrative must provide a clear, complete, and concise description of the reported activity. In general, a SAR narrative should identify the following essential elements of information regarding the suspicious activity being reported:

- Who is conducting the suspicious activity?⁵
- What instruments or mechanisms are being used to facilitate the suspect transactions?⁶
- When did the suspicious activity take place?⁷

⁵ Part I of the SAR requires the reporting entity to provide specific suspect information (when available). Additionally, the FFIEC BSA/AML Manual recommends that the narrative section, in Part V of the SAR, should be used to further describe the suspect or suspects, including occupation, position or title within the suspect's business, the nature of the suspect's business (or businesses), and any other information and identification numbers associated with the suspects.

⁶ The SAR includes check boxes to record the instrument type(s)/payment mechanism(s) involved in the suspicious activity and type(s) of suspicious activity being reported, and FinCEN requests that financial institutions also include certain key terms in the narrative section of the SAR and describe the monetary instrument and type of suspicious activity in further detail.

⁷ If the suspicious activity takes place over a period of time, the SAR filing instructions provide that, "if appropriate, this description should be chronological when the activity involves multiple instances or encompasses more than one day." The FFIEC BSA/AML Manual states that reporting entities should indicate the date when the suspicious activity was first noticed and describe the duration of the activity. When possible, to better track the flow of funds, the FFIEC recommends that individual dates and amounts of transactions should be included in the narrative rather than only the aggregated amount.

- Where did the suspicious activity take place?⁸
- Why does the filer think the activity is suspicious?⁹
- How did the suspicious activity occur?¹⁰

SAR Timeliness

When an Enterprise knows, suspects, or has reason to suspect that a transaction or pattern of transactions may satisfy one or more of the SAR filing requirements above, it must file a SAR within 30 calendar days.¹¹

The timely filing of SARs facilitates law enforcement’s efforts to determine whether a crime was – or continues to be – committed, as well as the extent of any possible criminal activity. Therefore, it is imperative that financial institutions not only file complete and thorough SARs, but that they do so within the established deadlines.

DER’s Examination of the Enterprises’ Suspicious Activity Reporting

FHFA is statutorily required to oversee the Enterprises, and DER – or DAFS acting on DER’s behalf – is responsible for conducting oversight of the Enterprises’ suspicious activity reporting. To do so, DER utilizes a continuous supervision model through which on-site examination teams conduct risk-based examinations and issue annual Reports of Examination.

According to FHFA, the objectives of a Financial Crimes Risk Management examination of the Enterprises include evaluating the adequacy of suspicious activity reporting processes. In March 2020, as part of its Enterprise Examination Manual, DER issued the Financial Crimes Risk Management Module (Module) and the Bank Secrecy Act/Anti-Money Laundering (BSA/AML)

⁸ According to the SAR filing instructions, the narrative should indicate where the suspicious activity took place and should also specify if a foreign jurisdiction is involved.

⁹ The SAR narrative should provide a clear, complete, and concise description of the activity, including what was unusual or irregular that caused suspicion. The description should include any other information necessary to explain the nature and circumstances of the suspicious activity. The filer should provide any information they believe necessary to better enable investigators to understand the reported suspicious activity.

¹⁰ The narrative should describe the “modus operandi” or the method of operation of the subject conducting the suspicious activity. In a concise, accurate, and logical manner, the narrative should describe how the suspect transaction or pattern of transactions was committed.

¹¹ According to the FHFA Financial Crimes Risk Management Module, if no subject was identified at initial detection, the Enterprise may delay filing a SAR for an additional 30 calendar days to identify a subject. In no case shall the initial reporting be delayed by more than 60 calendar days. In situations involving violations that require immediate attention, such as ongoing money laundering schemes, the Enterprise must immediately notify the appropriate law enforcement authority in addition to filing a SAR.

Work Program (Work Program) for its examination teams' use.¹² Selected steps in the Work Program utilized by DAFS acting on DER's behalf in its 2022 examination¹³ include reviewing whether: 1) each SAR contains a narrative that describes the activity at issue sufficiently; 2) the Enterprise filed each SAR by the 30-day deadline; and 3) if applicable, the Enterprise sufficiently documented when it decided to not file a SAR for a particular transaction.

OBJECTIVE(S) AND SCOPE

This inspection assessed whether and to what extent DAFS adhered to the above-detailed steps in the Module and the Work Program in its oversight of Freddie Mac's reporting of suspicious activity in its single-family line of business, from March 1, 2021, through March 1, 2024.¹⁴ Appendix I provides details regarding our assessment methodology.

RESULTS

In its 2022 examination, DAFS reviewed [REDACTED] Freddie Mac transactions; of these transactions, [REDACTED] prompted the Enterprise to submit SARs.¹⁵ Among other adverse examination findings, DER issued a Matter Requiring Attention (MRA) and a violation,¹⁶ both of which identified that Freddie Mac [REDACTED] DER instructed Freddie Mac to [REDACTED]

¹² According to the Work Program, DER examiners are expected to consider relevant procedures in it, and to follow them as appropriate, when planning and conducting supervisory activities of the Enterprises. The appropriate use of the Work Program supports a consistent examination approach while allowing flexibility in designing examination objectives, scope, and procedures.

¹³ The 2022 examination was a targeted examination. Such examinations are a critical component of supervision, which is a deep or comprehensive assessment of the area under review.

¹⁴ The Agency's 2022 examination, performed between May and July 2022, was the only examination of suspicious activity reporting focused on single-family policies completed during our review period.

¹⁵ DAFS had two risk-based objectives for its 2022 examination: 1) Ascertain the effectiveness of internal policies, procedures and controls governing financial crimes risk program as it relates to BSA/AML compliance, including suspicious activity identification and reporting within the Single-Family Division; and 2) Evaluate the quality and effectiveness of independent testing of the Enterprise's BSA/AML compliance program.

¹⁶ Examiners have three categories of adverse examination findings: MRAs, Recommendations, and Violations. MRAs require remediation by an Enterprise's board of directors, management, or both. FHFA issues two types of MRAs, depending on the nature and severity of the findings and the priority for remediation: (1) critical supervisory matters (the highest priority) and (2) deficiencies. Violations are matters in which an examination discloses noncompliance with laws, regulations, or orders.

For this inspection, we reviewed DAFS’ handling of a representative sample of 12 of those transactions. For the sampled transactions for which Freddie Mac filed a SAR, we assessed whether DAFS determined properly that: 1) the SAR was filed by the 30-day deadline; and 2) the SAR narrative contained a sufficient description of the transaction at issue. For those sampled transactions for which Freddie Mac had declined to submit a SAR, we assessed whether DAFS had verified that Freddie Mac’s decisions to not file SARs were supported.

Timeliness

Pursuant to the Work Program, DAFS sought to “[d]etermine whether the Enterprise has met regulatory timelines for filing SARs.” The Agency determined that Freddie Mac filed a SAR for [REDACTED] of the 12 transactions [REDACTED]. [REDACTED] of these [REDACTED] SARs [REDACTED]. The average filing took [REDACTED] days ([REDACTED] days [REDACTED] and the longest filing took [REDACTED] days [REDACTED] days [REDACTED]. DAFS identified this [REDACTED] during its examination and directed remedial measures. We found that DAFS’ conclusions were consistent both with the facts and with the Work Program’s guidance.

Considering the untimely SAR filings DAFS had identified, Freddie Mac conducted a “look back” of prior SAR filings from 2015 to DAFS’ examination review period.¹⁷ During its review, Freddie Mac identified approximately [REDACTED] additional SARs that were filed from [REDACTED] to [REDACTED] days [REDACTED].

Decisions Not to Submit SARs

Pursuant to the Work Program, DAFS sought to evaluate whether “decisions not to file a SAR” are documented. Their testing revealed that Freddie Mac [REDACTED] [REDACTED] in our sample. Specifically, DAFS reviewed each of these [REDACTED] transactions and determined that Freddie Mac [REDACTED] for [REDACTED] of the transactions. For the [REDACTED] transaction, DAFS [REDACTED] [REDACTED] because the transaction was associated with an existing case. We reviewed these transactions and found that DAFS’ conclusions were consistent both with the facts and with the Work Program’s requirements.

Finding: DER did not Require Freddie Mac to Correct an Unclear SAR Narrative

Pursuant to the Work Program, DAFS evaluated whether “SAR narratives contain a sufficient description of the activity.”¹⁸ We found that during its examination, DAFS determined correctly

¹⁷ The review period for DER’s 2022 examination was January 1, 2021, through December 31, 2021.

¹⁸ The Work Program outlines the essential elements of information, discussed above, as information to be included in a sufficient SAR narrative description.

that [REDACTED] out of the [REDACTED] SARs in our sample included narratives which satisfied the FinCEN rule’s requirements.

DAFS determined correctly that the narrative for the remaining SAR had “[REDACTED]” and [REDACTED]. In that SAR, Freddie Mac’s narrative stated merely that [REDACTED]. Freddie Mac provided no indication as to why the income was “[REDACTED].”

After reviewing the underlying documentation to understand why Freddie Mac filed the SAR, DAFS agreed with Freddie Mac’s decision to file. Specifically, DAFS concluded that “the [REDACTED].” However, DAFS did not take any steps to require Freddie Mac to correct the SAR’s narrative to conform to FinCEN requirements, nor did it direct any corrective actions to ensure that future SAR narratives would include sufficient detail.¹⁹

As noted above, the narrative section can be instrumental in providing necessary detail to inform law enforcement of the described activity and its potential criminality and may impact law enforcement’s handling of matters related to the subject of the SAR. Freddie Mac’s inadequate description of the factors making the transaction suspicious undermines the SAR’s purpose. While DAFS recognized the inadequate narrative, and did not require the Enterprise to take remedial action to address it, they did discuss the matter with Freddie Mac.

Recommendations

We recommend that DER:

1. Create examination procedures to assess the effectiveness of Enterprises’ internal controls and processes in ensuring compliance with FinCEN requirements for SAR filings, to include SAR narratives, and communicate the new procedures to the examiners responsible for this work.
2. Consider whether to direct Freddie Mac to file an amended SAR containing a complete narrative for the case identified above, and whether to amend FHFA’s examination procedures to require this step if future examinations uncover a similar issue.

¹⁹ DAFS did ask Freddie Mac to consider performing periodic reviews of its transaction reporting to ensure consistency and accuracy in how Freddie Mac documented the reported transactions.

FHFA COMMENTS AND OIG EVALUATION.....

We provided a draft of this report to FHFA for its review and comment. The Agency’s comments are included in Appendix II. FHFA agreed with both recommendations and undertook specific corrective actions. We will close the recommendations upon reviewing the documentation that FHFA committed to provide and independently determining that FHFA has implemented the corrective actions.

APPENDIX I: METHODOLOGY.....

To accomplish our objectives, we performed the following procedures:

- We reviewed FHFA policies, procedures, and other guidance that pertained to the assessment of the Enterprises' compliance with the BSA.
- We interviewed Agency officials regarding their assessment of Freddie Mac's compliance with the BSA.
- We reviewed DER's previous examination and supporting documents.
- We obtained from DER a population of 55 transactions it reviewed for its 2022 examination.
- We selected a random sample of 12 of the 55 transactions to assess various factors. This sample represents a 20 percent proportion of the population and should bolder the sample to be sufficiently representative of the population.
- We reviewed whether DAFS evaluated Freddie Mac's transactions to determine if: 1) the SAR regulatory filing timelines were being met; 2) decisions not to file a SAR were sufficiently documented to support the decision; and 3) the SAR narratives contained a sufficient description of the activity.
- We conducted this compliance review's fieldwork from September 2024 through October 2024 under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Quality Standards for Inspection and Evaluation (December 2020), which were promulgated by the Council of the Inspectors General on Integrity and Efficiency.
- We provided FHFA with a draft of this report for its review and comment. FHFA's feedback was considered and addressed appropriately.

APPENDIX II: FHFA MANAGEMENT RESPONSE.....

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Federal Housing Finance Agency

MEMORANDUM

TO: Brian W. Baker, Deputy Inspector General, Office of Compliance

FROM: Victoria Nahrwold, Deputy Director, Division of Enterprise Regulation
VICTORIA NAHRWOLD Digitally signed by VICTORIA NAHRWOLD
Date: 2025.03.19 15:28:16 -04'00'

SUBJECT: Draft OIG Report: *Inspection: FHFA Oversight of Freddie Mac's Issuance of Suspicious Activity Reports*

DATE: March 19, 2025

Thank you for the opportunity to respond to the above-referenced Office of Inspector General (OIG) draft report (Report). The objective of the OIG inspection was to assess whether and to what extent FHFA's Division of Accounting and Financial Standards (DAFS), acting on behalf of Division of Enterprise Regulation (DER), followed selected steps from its Examination Manual in its oversight of Freddie Mac's reporting of suspicious activity in its single-family line of business. The review period of the inspection was from March 1, 2021, through March 1, 2024.

The Report noted areas for improvement and makes two recommendations, with which we agree.

Recommendation 1: *Create examination procedures to assess the effectiveness of Enterprises' internal controls and processes in ensuring compliance with FinCEN requirements for SAR filings, to include SAR narratives, and communicate the new procedures to the examiners responsible for this work.*

Management Response: FHFA agrees with this recommendation. By November 14, 2025, FHFA will create examination procedures to assess the effectiveness of the Enterprises' internal controls and processes in ensuring compliance with FinCEN requirements for SAR filings, to include SAR narratives. After creating the examination procedures, FHFA will communicate to the examiners responsible for this work that these procedures have been created and are available for use.

Recommendation 2: *Consider whether to direct Freddie Mac to file an amended SAR containing a complete narrative for the case identified above, and whether to amend FHFA's examination procedures to require this step if future examinations uncover a similar issue.*

Management Response: FHFA considered and determined that, while it would not further supervisory objectives for FHFA to direct Freddie Mac to amend and refile a specific SAR, safety and soundness oversight would benefit from an assessment of improvements to the controls and performance of testing to determine whether the controls are implemented. In the 2026 supervisory cycle, FHFA agrees to conduct a supervisory activity to assess Freddie Mac's controls in place to ensure that their SAR narratives meet FinCEN requirements.

I would like to acknowledge the professionalism and courtesy of the OIG staff who conducted this inspection 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

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