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Federal Housing Finance Agency Office of Inspector General
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Chairman Davidson, Ranking Member Cleaver, and honored members of the Subcommittee, thank you for the opportunity to appear today to talk about the meaningful work the Federal Housing Finance Agency Office of Inspector General (FHFA-OIG) is doing for the benefit of American homeowners.

When I became the FHFA Inspector General in early 2022, I approached the duties of my new office in the same way I had approached my entire professional life – by maintaining independence, seeking transparency and facts, and adhering to a strict code of ethics and integrity. I believe all government authorities should embrace and promote transparency and integrity. The role of an Inspector General is precisely designed to support Agency leaders in achieving these goals.

I am honored to share the table today with my distinguished colleague Rae Oliver Davis, Inspector General of the Department of Housing and Urban Development (HUD).

IG Oliver Davis and I each oversee agencies that are crucial to the U.S. housing markets. FHFA functions, among other things, as a financial regulator, while HUD administers programs that distribute billions of dollars as part of its work. Although each of our agencies has a unique mission and different workstreams, we share many of the same oversight goals. I am grateful we have this opportunity to share with the subcommittee some highlights of our oversight work for the American people.

FHFA-OIG Mission

As an independent unit within FHFA, FHFA-OIG aims to ensure access to housing through rigorous oversight of FHFA's work and robust enforcement efforts to protect the interests of the American taxpayers. Our work strengthens and protects the nation's housing finance system by promoting economy, efficiency, and integrity in FHFA's programs and operations, and protecting FHFA and the entities it regulates against fraud, waste, and abuse. Whether for the firefighter in Missouri looking to buy a first home or the senior citizen looking for an assisted living facility in Ohio, the growing family looking for a bigger house in California, or the single parent looking for an affordable apartment in South Carolina, the importance of safe and affordable housing for all Americans cannot be overstated.

FHFA Is Maturing as an Agency and Regulator

FHFA is responsible for the effective supervision, regulation, and mission oversight of Fannie Mae and Freddie Mac (the Enterprises); Common Securitization Solutions, LLC, an affiliate of each Enterprise; and the Federal Home Loan Bank System, which includes the 11 Federal Home Loan Banks (FHLBanks) and their fiscal agent, the Office of Finance. FHFA's mission is to ensure that the Enterprises, Common Securitization Solutions, and FHLBanks (together, the regulated entities) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment throughout the economic cycle. In addition to these responsibilities, FHFA serves as conservator of the Enterprises, a role it has played since 2008.

Over the last decade and a half, FHFA-OIG teams produced a substantial body of work that directly contributed to improvements in FHFA's operations, impacting the regulated entities, the housing finance marketplace, and ultimately, people across the nation. During this period, our reports reflected the evolution and maturation of FHFA as both an agency and a regulator.

In the early years, we identified significant concerns in core operations, such as FHFA not completing its planned supervisory work. Since our inception we have made more than 600 recommendations to address the issues we found, helping FHFA further its role as both regulator and conservator. FHFA has embraced the vast majority of those recommendations and, in our opinion, has gradually transitioned from its startup phase into a more stable, mature operation.

During my more than two years as Inspector General, FHFA-OIG has issued more than 60 reports, and our findings largely demonstrate that FHFA is achieving better administrative and management results. For example, we find that FHFA generally adheres to its policies and makes necessary adjustments to keep pace with internal and external factors. We do, however, regularly identify areas where the Agency can improve and continue to progress. In the last two years, FHFA has committed to implement all the recommendations we have issued.

Many of our recent recommendations have focused on improving issues related to documentation, such as updating policies or procedures, and noting reasoning, results, or reviews. It is important to recognize that documentation is not just bureaucratic paperwork; accurate and complete records promote consistency, accountability, and, importantly, sustainability, and are the foundation of transparency.

FHFA-OIG Reporting

Housing finance is broad and complex. As such, our oversight spans a wide range of areas. The following sample of recent reports helps demonstrate the spectrum of our activity and provides insight into areas where FHFA has improved its operations and where room for improvement remains. These reports, along with our ongoing and planned initiatives, serve as important components supporting FHFA's sustained progress and advancing continuous improvements in fulfilling its critically important mission.

Conservatorships

FHFA placed Fannie Mae and Freddie Mac under conservatorship to preserve and conserve their assets and property and restore them to a sound and solvent condition so they can continue to fulfill their statutory missions. As conservator, FHFA has the authority to make day-to-day and long-term business, managerial, governance, and strategic decisions for the Enterprises. Although FHFA has provided for the exercise of certain functions and authorities by the Enterprises' boards of directors, it retains certain decision-making authority over the Enterprises. That authority is exercised through conservatorship orders, directives, and a process defined in its Letter of Instruction to each Enterprise board, which requires the Enterprises to submit certain business matters to FHFA for consideration and determination before acting.

Given the importance of the conservatorship function, we conducted an audit last year to determine whether FHFA followed its policies and procedures when making conservatorship decisions. Our audit team found that while FHFA has followed its policies in making conservatorship decisions, it needs to improve its documentation of the decision-making processes and final outcomes and update those policies and procedures. To reach these conclusions, we reviewed supporting documentation for a sample of 40 conservatorship decisions and found that FHFA analyzed, approved, and documented 37 of the decisions as required. In addition, as required by its conservatorship decision policy and procedures, we found that FHFA performed conservatorship monitoring and surveillance during the audit period. Although this is generally a positive result, the lack of documentation for three of the decisions in our sample means that FHFA cannot provide full transparency regarding the suitability of these decisions or assign accountability for their approval.

In addition, FHFA has not substantially revised the policy and procedures governing conservatorship decisions since 2018, even though FHFA's practices, especially those related to decision approval authorities and conservatorship monitoring and surveillance, have evolved.

We recommended Agency management reiterate the importance of documentation to all offices with conservatorship responsibilities and update conservatorship policies and procedures.

FHFA Followed Its Guidance When Making Conservatorship Decisions But Needs to Improve Retention of Decision Documentation and Update the Conservatorship Decision Policy and Procedures (AUD-2023-003) 03/29/2023

Nonbank Seller/Servicers

Sellers originate single-family mortgage loans and sell them to an Enterprise, which either holds them in its portfolio or guarantees and securitizes them as mortgage-backed securities. Servicers process payments (e.g., collect principal and interest, taxes, and insurance payments) and perform necessary loan administration functions for mortgages. Sellers and servicers may be either depository institutions (i.e., banks, thrifts, credit unions) or non-depository institutions (i.e., nonbanks such as direct-to-consumer mortgage lenders). Mortgage sellers and servicers pose counterparty risk to the Enterprises, stemming from the risk of loss should a seller or servicer not meet their contractual obligations.

FHFA has identified elevated risks associated with the Enterprises' relationship with nonbank seller/servicers. The Agency determined oversight of nonbank seller/servicers to be a top supervision priority for 2023 and noted that the Enterprises are exposed to increased risk from nonbank seller/servicers because they (1) are not subject to a federal prudential regulator, (2) face a higher liquidity risk, and (3) represent a higher share of loans originated and serviced.

With these points in mind, we conducted an audit to determine whether FHFA's oversight was effective at ensuring the Enterprises managed nonbank seller/servicers' risks. The results were again generally positive. We found that FHFA conducted supervisory examination activities that responded to identified risks and provided coverage of the Enterprises' significant risk management processes for nonbank seller/servicers, completed three nonbank seller/servicer reviews that assessed performance of these entities, and prepared analysis products that supported the Agency's oversight efforts.

At the same time, we found that FHFA had not developed policies and procedures for reviews of nonbank seller/servicers or policies and procedures that govern its risk monitoring and analysis work. Without these policies and procedures, there is an increased risk that examiners might not consistently or effectively plan and perform these reviews, and that FHFA may not produce accurate risk monitoring and analysis products using quality information as intended.

We made two recommendations related to development and implementation of written policies and procedures.

DER Provided Effective Oversight of the Enterprises' Nonbank Seller/Servicers Risk Management But Needs to Develop Policies and Procedures for Two Supervisory Activities (AUD-2024-003) 03/28/2024

Business Resiliency

Business resiliency describes the ability of an organization to minimize the impact of disruptions and maintain business operations at predefined levels. FHFA expects the Enterprises to establish and maintain a business resiliency program to respond to "[u]ncontrolled events, such as natural disasters, pandemics, and cyberattacks," which can threaten the regulated entities' ability to perform mission critical operations.

In 2021, we reported that FHFA found critical deficiencies in Fannie Mae's practices in this area. FHFA agreed to complete a targeted examination of Fannie Mae's business resiliency during the 2022 examination cycle using relevant criteria in FHFA's advisory bulletin on business resiliency management.

Earlier this year, we conducted an evaluation to confirm that FHFA performed the examination activities it had committed to complete and to assess whether its supervisory efforts were successful in addressing the critical deficiencies it had identified in Fannie Mae's program.

We verified that FHFA conducted a 2022 targeted examination on business continuity in direct response to our 2021 evaluation. We also verified that examiners assessed the Enterprise's practices against criteria from FHFA's advisory bulletin on business resiliency management. These exams did not result in any matters requiring attention.

While conducting our evaluation, we identified that, separate from its examination work, FHFA as conservator set objectives and prescribed specific business resiliency testing and reporting requirements for the Enterprises. FHFA exercised its authority as conservator and issued a Business Resiliency Directive in 2022 that highlighted the importance of the Enterprises developing recovery testing for their programs. The Directive requires each Enterprise to demonstrate its ability to switch to out-of-region locations, operate, and return to its normal information systems for each of its mission-critical applications. According to FHFA, Fannie Mae has met and continues to meet the requirements of the Directive, and its business resiliency program meets, and in some areas has exceeded, FHFA's expectations.

FHFA Took Actions to Ensure That Fannie Mae Adequately Addressed Deficiencies in Its Business Resiliency Program (EVL-2024-001) 03/25/2024

Appraisals

The property appraisal is a critical part of the homebuying process. An inaccurate or untimely estimate of value could cause a prospective buyer or lender to make a decision they might not otherwise make.

Racial discrimination in the sale or rental of property in America has been prohibited by federal law for over 150 years. In December 2021, FHFA conducted an independent review of a sample of appraisal reports and concluded that valuation bias based on race, which is a form of racial discrimination, persists in housing finance in America. Although FHFA has not determined how widespread the prohibited activity is, the Agency identified several overt references to race, color, and other prohibited bases in appraisals.

In 2022, we performed an evaluation to determine what actions FHFA took to address the examples of valuation bias it called attention to in its review. We found that while FHFA shared information with other federal entities, it did not take the additional step of filing complaints with the relevant state appraiser licensing authorities that would prompt investigations of the offending appraisers FHFA identified in its review. To address this issue, we recommended FHFA ensure complaints are filed with the relevant state appraiser licensing authorities for each appraisal from its December 2021 review in which FHFA found overt references to race, color, and other prohibited bases.

As a separate matter, under a regulation issued by HUD, it is an unlawful practice to use an appraisal of residential property in connection with the "sale, rental, or financing of any dwelling where the person knows or reasonably should know" that the appraisal "improperly takes into consideration race, color" or other prohibited bases. Our evaluation found that although FHFA identified appraisals that made overt references to prohibited bases in certain appraisal reports it reviewed, FHFA has not determined the extent to which the Enterprises are using appraisals that improperly consider bases prohibited by federal fair lending law. To address that finding, we recommended FHFA coordinate with Fannie Mae and Freddie Mac to determine the extent to which the Enterprises currently use appraisals that improperly take into consideration race, color, and other prohibited bases.

In addition to focusing on appraisal bias, FHFA continues to modernize appraisal-related policies, practices, and processes to ensure the safe and sound operations of the Enterprises. Over the past few years, FHFA has explored various property valuation solutions, including desktop appraisals, where appraisers assess properties without physically inspecting the property.

In a 2023 audit, we assessed FHFA's oversight of the Enterprises' use of desktop appraisals. The audit discovered that FHFA did not document reviews of desktop appraisal reports according to internal control standards. We made two recommendations to ensure the Agency documents and monitors progress appropriately.

FHFA Could Further Combat Appraisal Bias by Ensuring That Complaints Are Filed with State Authorities and Ensuring the Enterprises Use Appraisals That Comply with Federal Law (EVL-2023-001) 12/20/2022

FHFA Did Not Document Reviews of Desktop Appraisal Reports (AUD-2024-001) 10/25/2023

FHLBank Oversight

The 11 regional FHLBanks are owned cooperatively by more than 6,000 member institutions, including banks, thrift institutions, credit unions, and insurance companies. The FHLBanks support housing finance by providing low cost short- and long-term secured loans, known as advances, to their members. FHLBank members use advances to support their own mortgage lending, among other purposes. The FHLBank System has been a source of liquidity for its members for the past 90 years, especially during times of market stress, such as the Great Recession and the outset of the COVID-19 pandemic.

The FHLBanks also support low-income housing and community development directly by offering a variety of programs to their members, including the Affordable Housing Program, the Community Investment Program, and the Community Investment Cash Advance Program. We published a whitepaper in 2023 that offers an overview of the FHLBank System.

In March 2023, two FHLBank member banks failed, and another voluntarily liquidated after experiencing significant deposit outflows and financial difficulties. When faced with the urgent need for liquidity, these institutions obtained funding from the FHLBanks in the form of advances. The collapses drew scrutiny from FHFA into the FHLBanks' member credit risk management practices and, more broadly, into the system's role in lending to troubled members.

Following these significant events, we conducted an evaluation to assess the extent to which the Agency adapted its 2023 examination planning. We looked at a sample of six FHLBanks and found that FHFA examiners adjusted their supervisory activities and examination planning in response to the heightened risk environment. Executives shifted resources from other examinations to review credit practices at the FHLBanks most directly affected by the market disruption and member collapses.

Other recent reporting on the FHLBanks also demonstrates progress by FHFA in their supervisory role. In an initial report, we found that FHFA had not performed community support examinations for all the FHLBanks, nor had the Agency adhered to its examination schedule. In a follow-up report, we determined that FHFA had taken steps to address the deficiencies we identified and strengthened its oversight of the FHLBanks' community support requirements Similarly, when we revisited reports from 2019 and 2021, we determined that certain FHLBank examination workpapers had appropriately received quality control reviews from independent staff.

An Overview of the Federal Home Loan Bank System (WPR-2023-002) 03/31/2023

DBR Adapted the Scope of Its Federal Home Loan Bank Supervisory Activities in 2023 in Response to Market Disruptions (EVL-2023-004) 09/21/2023

FHFA Has Acted to Strengthen Its Oversight of Federal Home Loan Bank Members' Compliance with Community Support Requirements (Inspection) (COM-2024-001) 01/10/2024

DBR Performed Quality Control Reviews of All Substantive Workpapers Prepared by Examiners-in-Charge During the Review Period (COM-2024-006) 04/23/2024

Information Security and Cybersecurity Risks

FHFA's regulated entities comprise central components of the U.S. financial system and electronically connect with other large financial institutions. As part of their business processes, they receive, store, and transmit highly sensitive private information about borrowers and businesses, including financial data and personally identifiable information.

As the regulated entities' supervisor and conservator, FHFA also has access to sensitive information and must adhere to numerous information security requirements. Protecting this information is critically important, as the threat landscape in the cyber arena changes constantly, requiring continuous vigilance and monitoring.

Because FHFA's management of these cybersecurity-related matters remains important, we regularly assess how FHFA oversees cybersecurity risk at the regulated entities. Moreover, we assess how FHFA protects the highly confidential information it possesses. Our work in this space has identified ongoing challenges, and considering its critical importance, merits heightened focus from FHFA.

Over the last two years, we have published several reports focusing on FHFA's information security and its oversight of cybersecurity at the regulated entities. Here is a sample of our findings:

- In a prior evaluation, we found that FHFA did not collect consistent cybersecurity incident data from the Enterprises. In response to our evaluation's recommendations, FHFA issued an advisory bulletin that, among other things, requested that the Enterprises enhance the timeliness of its reporting based on the severity of an incident. In 2022, we assessed the Enterprises' compliance with the advisory bulletin, finding that although their monthly reports generally met the format and timeliness requirements, FHFA had identified weaknesses in their understanding of the reporting requirements. We determined that FHFA undertook timely corrective actions to address those weaknesses.

- In 2022, we found FHFA did not configure all of its publicly accessible websites and web services with a secured connection because those websites and web services were managed by a third-party vendor not under FHFA's control. Unsecured connections to FHFA websites and web services could subject user information to interception, eavesdropping, tracking, and modification.

- A 2023 audit identified multiple exceptions to federal requirements and FHFA standards and guidelines regarding FHFA's oversight of its cloud system and implementation of select controls for which FHFA management is responsible. In our view, these exceptions occurred with sufficient frequency to warrant heightened management attention to the cybersecurity risk posed to its cloud system.

- In another 2023 audit, we found that FHFA effectively implemented spam protection security control, safeguarding its network and systems against external threats. However, we also identified vulnerabilities on FHFA's public websites that it was unaware of because it did not use its own scanning tool. We also found that FHFA's policies and procedures lacked guidelines for monitoring, scanning, and remediating those vulnerabilities.

FHFA Is Addressing Inadequate Cybersecurity Incident Reports by the Enterprises (COM-2022-009) 09/22/2022

FHFA Did Not Fully Implement Select Security Controls Over One of Its Cloud Systems as Required by NIST and FHFA Standards and Guidelines (AUD-2023-002) 03/08/2023

FHFA Did Not Fully Comply with DHS Binding Operational Directives for Securing Its Public Websites and Publishing Its Vulnerability Disclosure Policy (AUD-2022-010) 08/31/2022

[FHFA Effectively Blocked Phishing Emails, But Requires Improvement in Managing Vulnerabilities on Its Public Websites] (AUD-2023-008) 09/27/2023

FHFA-OIG Investigations

In addition to the work of our report teams, FHFA-OIG's investigators play a significant role in protecting the nation's mortgage markets, through civil and criminal investigations of allegations of mortgage fraud and other financial crimes that involve or affect the Enterprises or FHLBanks. Investigations typically touch the lives of everyday people, many of whom have been victims of the criminal actions of mortgage industry professionals. Our FHFA-OIG Hotline receives numerous complaints ranging from allegations of managerial mismanagement to costly mortgage fraud to outright theft.

In the past two years, FHFA-OIG's Office of Investigations has reported more than 150 convictions or pleas and more than $2.2 billion in criminal and civil penalties.

Fraudsters utilize various techniques to target individuals, groups, counterparties, FHLBank members, or the regulated entities themselves. Since the Office's creation, we have investigated allegations involving both the single-family and multifamily housing sectors. Among the fraud schemes within the Office's investigative scope are:

- Loan/Mortgage Origination – This fraud scheme typically involves the falsifying of borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders.

- Short Sales – Short sales occur when a lender allows a borrower to sell his/her property for less than the debt owed. This usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale.

- Loan Modification/Property Disposition – In loan modification/property disposition fraud, fraudulent actors advertise that they can secure loan modifications, preying on vulnerable homeowners, if the homeowners pay significant upfront fees or take other action that enriches the defendant.

- Real Estate Owned (REO) Homes – These homes represent collateral seized to satisfy unpaid mortgage loans. REO inventory has sparked different schemes to either defraud the Enterprises, using contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.

- Adverse Possession/Distressed Property – These fraud schemes use illegal adverse possession (also known as home squatting) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure.

- Condo Conversion and Builder Bailout – Sellers or developers in these fraud schemes wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe.

- Residential Mortgage-Backed Securities (RMBS) – In this type of fraud scheme, 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.

- COVID-19 Paycheck Protection Program (PPP) Loans under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) – Fraud perpetrated against these programs includes schemes where FHLBank member banks are victimized by the submission of PPP applications with false and misleading statements about a company's business operations and payroll expenses.

Our cases span the gamut: some are highly complex and involve sophisticated industry insiders, which take many years to investigate and prosecute, while others are low tech such as identity theft or fraudulent documents. Whatever form the fraud may take, we remain committed to pursuing the facts and obtaining justice for victims.

The following sections contain highlights from select cases.

Results Through Partnerships

FHFA-OIG's team of highly trained law enforcement officers, investigative counsels, analysts, and attorney advisors maximizes the impact of our criminal and civil law enforcement efforts by working closely with federal, state, and local law enforcement agencies nationwide. For example, we routinely partner with OIG investigators from HUD and FDIC as well as the Department of Justice, the Federal Bureau of Investigation, and state law enforcement agencies to bring all of our investigative resources to bear on our cases.

- We partnered with HUD OIG and others on an investigation into an embezzlement conspiracy that led to the failure of a Chicago bank, which was a member bank of the FHLBank of Chicago. Our investigation led to criminal charges against 16 defendants, including the bank's Chief Financial Officer and Treasurer, board members, and other high-ranking employees for conspiring to embezzle at least $31 million in bank funds. Four defendants were convicted after jury trials, while ten defendants pleaded guilty and two entered into deferred prosecution agreements.

- In another case, FHFA-OIG and HUD OIG partnered to bring down a Georgia mortgage fraud scheme spanning more than four years and resulting in the approval of more than

100 mortgages based on fabricated documents and false information. The 12 scheme participants included a real estate agent, a real estate broker, real estate agency owners, and employment verifiers.

UBS Civil Settlement

In January 2012, the Attorney General issued a memorandum announcing the formation of the RMBS Working Group as a part of the President's Financial Fraud Enforcement Task Force. The Working Group was designed to investigate misconduct in the market for mortgage-backed securities, which was the ultimate cause of the 2007-2009 national financial crisis. FHFA-OIG investigators played an active role in the working group, along with our partners from other agencies, including HUD OIG.

Since the inception of the RMBS Working Group, DOJ has negotiated civil settlements worth over $36 billion. FHFA-OIG, in collaboration with DOJ and other partners, has initiated 37 full investigations to examine alleged misconduct of banks, mortgage originators, and rating agencies.

FHFA-OIG investigators played a pivotal role in the 2023 resolution that led UBS to agree to pay $1.435 billion in penalties to settle a civil action. Filed in November 2018, the complaint alleged misconduct related to UBS' underwriting and issuance of RMBS issued in 2006 and 2007.

Despite representations in publicly filed offering documents, UBS officers knew that significant numbers of the loans backing the RMBS the company sold did not comply with loan underwriting guidelines designed to assess borrowers' ability to repay. During the case, proof emerged showing UBS officials knew that the property values associated with a significant number of the securitized loans were unsupported and that significant numbers of the loans had not been originated in accordance with consumer protection laws.

UBS had conducted extensive due diligence on the underlying loans prior to the RMBS being issued to determine whether the loans were consistent with representations that would be made to investors. Ultimately, the RMBS issued by UBS sustained substantial losses and contributed to the financial collapses that continue to affect the industry.

Paycheck Protection Program Fraud

In March 2020, Congress passed the $2.2 trillion CARES Act in response to the global coronavirus pandemic. The CARES Act also established PPP to provide small businesses with money to pay up to two months of payroll and benefits.

Unscrupulous criminals quickly found ways to defraud the nation of the crucial funds designated to help business and their employees survive the economic impacts of the pandemic. Since April 2020, FHFA-OIG's Office of Investigations has been part of a multiagency effort to investigate CARES Act-related fraud. Our investigators have aggressively pursued COVID-19 relief fraud investigations and prosecutions, and we continue to work tirelessly to help find and bring to justice those who steal from the nation for their own enrichment. Many of our cases involved ruthless fraudsters who illegitimately received PPP or other COVID-19 relief funds and used some or all of the money to enrich themselves, take out millions in fraudulent mortgages, or engage in unscrupulous deals.

For example, one of the largest PPP conspiracy investigations involved a major ring of over 20 individuals who defrauded the PPP program. After more than two years of complex work, 17 conspirators were sentenced from October 2023 through February 2024 in the Southern District of Texas for their roles in fraudulently obtaining and laundering millions of dollars in forgivable Paycheck Protection Program loans.

The felons victimized multiple FHLBank member banks and sought $35 million in PPP loan funds and obtained nearly $20 million in PPP proceeds. According to court documents, the defendants conspired together and with others to fraudulently obtain PPP loans by, among other means, supplying false information about their number of employees and the average monthly payroll expenses. That information was then used to submit false and fraudulent PPP loan applications, which also included fraudulent bank records and fake federal tax forms. The ringleader recruited others into the conspiracy to support the loan applications in exchange for kickbacks.

The defendants also laundered a portion of the fraudulent proceeds by writing checks from companies that received PPP loans to fake employees. These fake paychecks were cashed at certain cash checking businesses, including one owned by another co-conspirator.

Victimizing the Vulnerable

FHFA-OIG takes seriously any allegation of fraud, and fraud that targets vulnerable populations merits particular focus. These cases can often be difficult, but we have been successful in holding unscrupulous actors to account. In one recent example, we investigated and supported the prosecution of three co-conspirators in a $7 million fraud scheme that targeted vulnerable people, including elderly homeowners, in financial distress.

A California mortgage company president and two other employees advertised assistance to desperate homeowners facing foreclosure, preying on those who simply wanted to stay in their homes. They promised consumers that if they transferred title of their house to the company and paid money, the company would eliminate the mortgage lien and deed the home back to the homeowner, clear of any liens. They filed false court documents, false documents with the county recorders' offices, and false bankruptcies that stalled the foreclosures but did nothing to eliminate the liens, all while collecting money from the victims. Tragically, all of the victims lost their homes as a result.

In partnership with the California Attorney General's Office, we successfully prosecuted the company president on over 100 felony counts – including elder abuse and grand theft –

ultimately securing a more than 25-year prison sentence. The two other employees pleaded guilty and earned sentences of 10 years and 6 years in prison.

In another case, a corrupt financial advisor made his 75-year-old victim from Maryland believe his retirement funds were protected and would not lose value. He also told the victim he was handling his mortgage payment and convinced the man to give him blank, signed checks, which the adviser then used for personal purposes. Tragically, in the fall of 2019, the victim's home was put into foreclosure because the adviser had not made the mortgage payments as pretended. And even more tragically, the victim passed away in March 2020. After the investigation, the financial advisor pleaded guilty and was sentenced to three-and-a-half years in federal prison.

Mortgage and other housing finance fraud isn't just a distant, faceless, corporate offense. Its effects are frequently deeply personal, resonating across our nation. Our investigations know no geographical bounds, and individuals engaging in fraudulent activity – from North Dakota to North Carolina, Washington state to Washington, DC, and everywhere in between – should never assume they are beyond our reach.

Future FHFA-OIG Work

Our work to strengthen and protect the nation's housing finance system continues. Whether through our criminal investigations or through our reports, every day the people of FHFA-OIG strive to promote economy, efficiency, and integrity in FHFA's programs and operations, and to protect FHFA and the entities it regulates against fraud, waste, and abuse.

We are currently working on a number of reports that will release in the coming months on significant topics, including credit risk management, appraisal bias, IT security, disaster recovery, flood insurance, and FHLBank mortgage programs. Some of this work will build on findings in previous reports, several of which I have detailed here today. Some of this work will represent an expanded facet of oversight. I look forward to sharing the results of this work with you in the future. And while I cannot comment on our ongoing investigations, I can assure you that FHFA-OIG remains vigilant in investigating and prosecuting fraud that affects our nation's housing finance system. In all our work, we remain focused on our mission.

I thank the subcommittee for the opportunity to testify today, and I am happy to answer any questions that you may have.