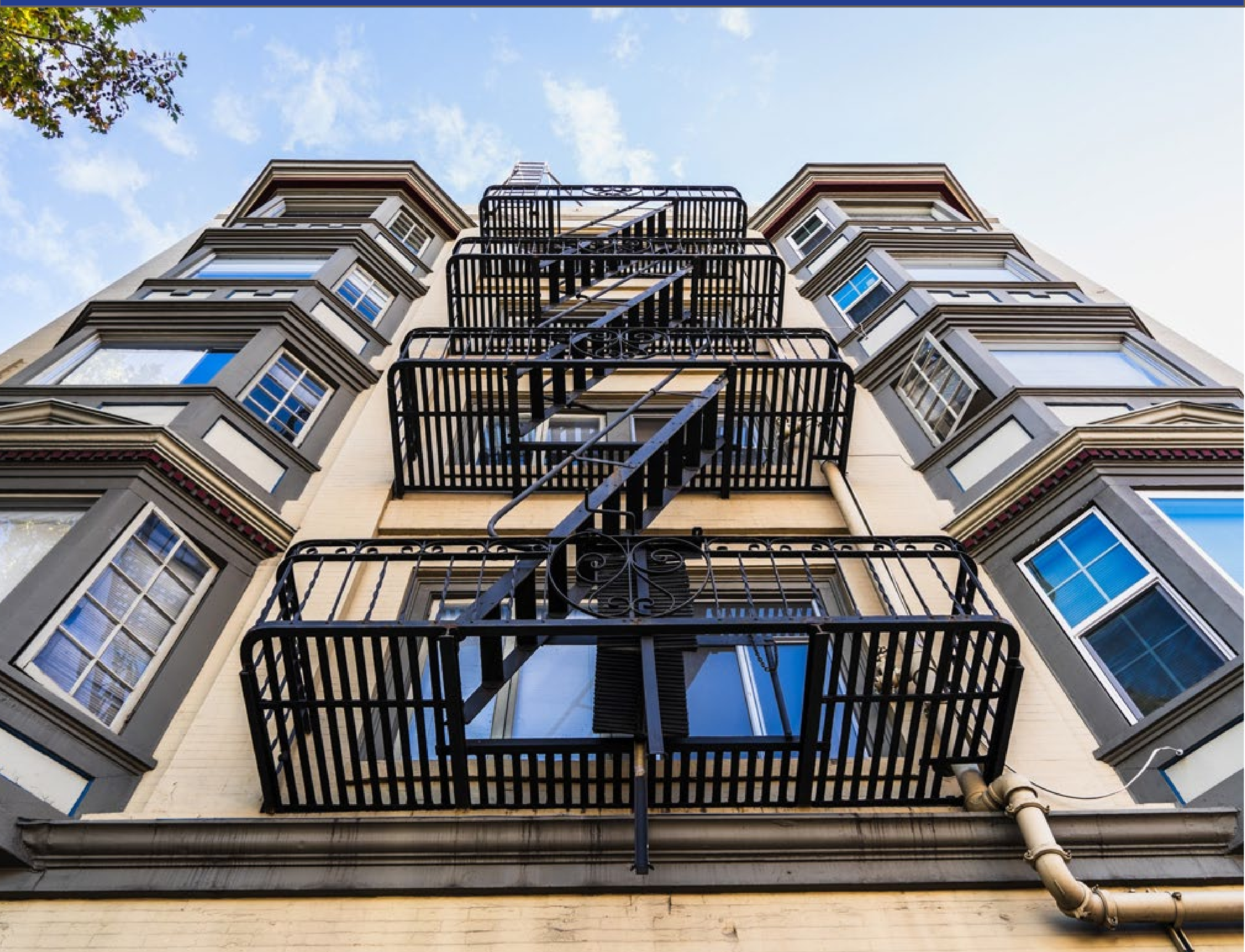
FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL
FHFA OIG

# Annual Plan

Fiscal Year 2025



## Message from the Inspector General

I am pleased to present the Fiscal Year 2025 Annual Plan for the Federal Housing Finance Agency (FHFA) Office of Inspector General (OIG). OIG conducts audits, investigations, evaluations, inspections, compliance reviews, and other oversight activities to fulfill our mission to promote economy, efficiency, and integrity in FHFA's programs and operations, and to deter and detect fraud, waste, and abuse in them.

This plan describes our oversight priorities for Fiscal Year (FY) 2025, which tie to the risks identified in our annual Management and Performance Challenges memorandum:

- Managing risk in the Enterprises' multifamily lines of business;
- Supervising the regulated entities' model risk management;
- Managing vulnerability within FHFA's information security programs and at the regulated entities;
- Addressing people risk at FHFA and at the regulated entities;
- Overseeing the regulated entities' reliance on counterparties and third parties; and
- Achieving certain supervisory goals for the FHLBank System and member credit risk management.

The annual plan includes work already underway, as well as planned projects. Because our work remains risk-based, we consider the plan dynamic and subject to change based on evolving facts and circumstances.

Brian M. Tomney
Inspector General

October 4, 2024

# Abbreviations

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| ADAEO | Assistant Designated Agency Ethics Official |
| AML | Anti-Money Laundering |
| BOD | Binding Operational Directive |
| BSA | Bank Secrecy Act |
| CIGFO | Council of Inspectors General on Financial Oversight |
| CIGIE | Council of the Inspectors General on Integrity and Efficiency |
| CISO | Chief Information Security Officer |
| CSS | Common Securitization Solutions, LLC |
| DAEO | Designated Agency Ethics Official |
| DBR | Division of Federal Home Loan Bank Regulation |
| DER | Division of Enterprise Regulation |
| FAR | Federal Acquisition Regulation |
| FHFA or Agency | Federal Housing Finance Agency |
| FHLBanks | Federal Home Loan Banks |
| FinCEN | Financial Crimes Enforcement Network |
| FISMA | Federal Information Security Modernization Act of 2014 |
| HFE | Housing Finance Examiner |
| OIG | Federal Housing Finance Agency Office of Inspector General |

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# Background

## Introduction

The Housing and Economic Recovery Act of 2008 established the Federal Housing Finance Agency (FHFA or Agency) in July 2008. FHFA serves as regulator and supervisor of several entities: Fannie Mae and Freddie Mac (the Enterprises); Common Securitization Solutions, LLC, an affiliate of each Enterprise (CSS); the Federal Home Loan Banks (FHLBanks) (collectively, the Enterprises, CSS, and the FHLBanks are the regulated entities); and the FHLBanks' fiscal agent, the Office of Finance. FHFA is responsible for ensuring the regulated entities' safety and soundness so that they serve as reliable sources of liquidity and funding for housing finance and community investment.

Since 2008, FHFA has also served as the Enterprises' conservator. As conservator, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions affecting the entire U.S. mortgage finance industry.

The Enterprises purchase mortgages from lenders and package them into mortgage-backed securities that are either sold to investors or held in their respective portfolios, thereby promoting liquidity in the housing finance system. Among other activities, the FHLBanks make secured loans known as advances to their members, such as banks or thrifts. Their members can, among other things, use the advance proceeds to originate mortgages or to support affordable housing or community development.

## About OIG

The Housing and Economic Recovery Act, which amended the Inspector General Act of 1978 (IG Act), also established OIG. Our mission is to promote economy, efficiency, and integrity in FHFA's programs and operations, and to deter and detect fraud, waste, and abuse in them, thereby supporting FHFA's mission. OIG conducts audits, investigations, evaluations, inspections, compliance reviews, and other oversight in connection with FHFA's programs and operations, including its supervision and conservatorship of the Enterprises, and its oversight of the FHLBank System and CSS. Also, because FHFA has been placed in the unique position of serving both as the Enterprises' regulator and their conservator, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises satisfy their delegated responsibilities and that taxpayer monies are not wasted or misused.

## How We Do Our Work

We accomplish our mission by conducting independent oversight of the Agency's programs and operations, engaging in robust enforcement efforts to protect the interests of the American taxpayers, and keeping our stakeholders fully and currently informed of our work.

We achieve our vision by being an independent oversight organization that acts as a catalyst for effective management, accountability, and positive change in FHFA. We hold accountable those who waste or steal funds in connection with the Agency or the regulated entities, whether inside or outside of the federal government. We seek to inspire a workforce that embodies the highest standards of integrity, professionalism, and technical proficiency.

Our values are fundamental to accomplishing our mission and conducting our daily operations.

### Mission

Promote the economy, efficiency, and integrity of FHFA programs and operations, and deter and detect fraud, waste, and abuse, thereby supporting FHFA's mission

### Vision

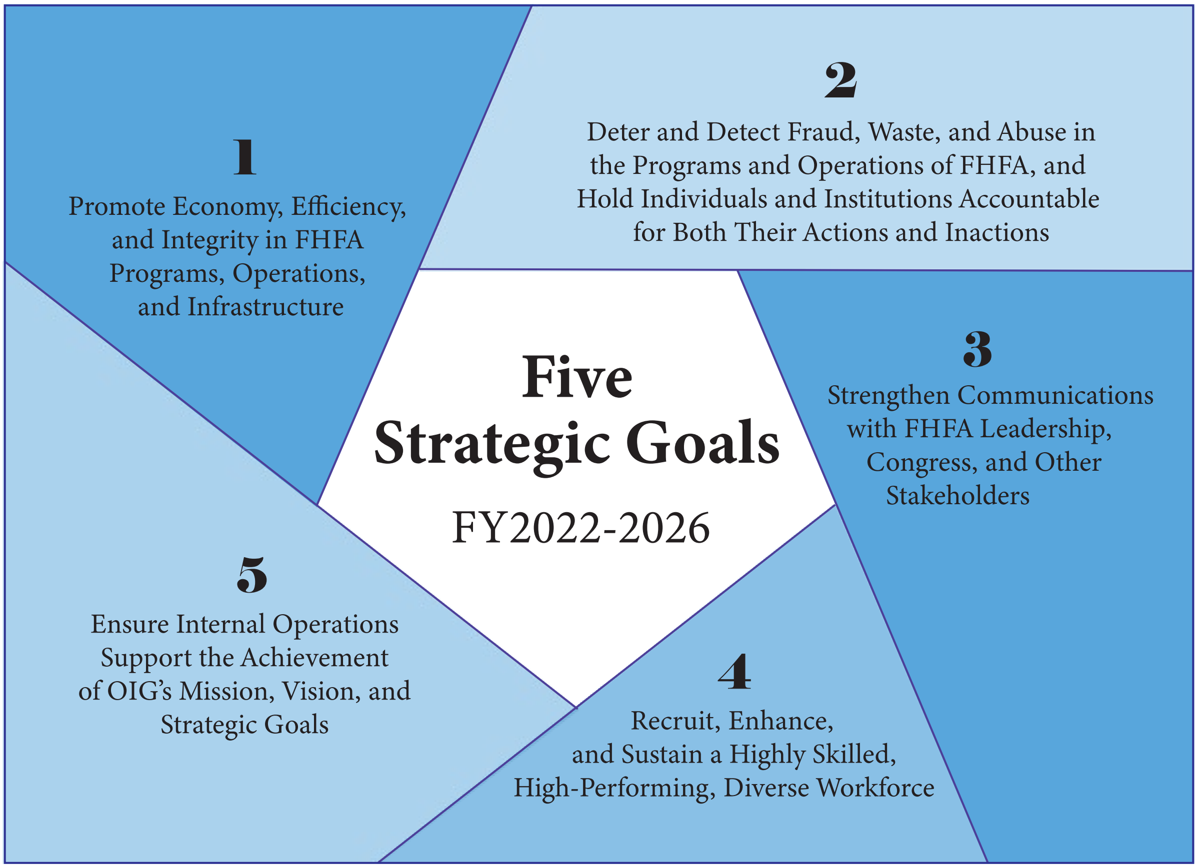
Promote excellence and trust through exceptional service to FHFA, Congress, and other stakeholders

### Values

Integrity, objectivity and independence, excellence, and respect

## Strategic Goals

OIG's mission, vision, and values are embodied in our commitment to five strategic goals for FY2022-2026.




This annual plan describes how we intend to execute those strategic goals across our body of work for FY2025.

## Areas of Focus

We use a risk-based approach to our work, which enables us to leverage our resources and provide effective oversight of FHFA. Our [FHFA Fiscal Year 2025 Management and Performance Challenges] memorandum identifies the areas that pose the greatest risks and challenges to FHFA and the regulated entities, and OIG's FY2025 oversight priorities, as outlined in this annual plan, center on those six management and performance challenges:

- Managing risk in the Enterprises' multifamily lines of business;
- Supervising the regulated entities' model risk management;

- Managing vulnerability within FHFA's information security programs and at the regulated entities;
- Addressing people risk at FHFA and at the regulated entities;
- Overseeing the regulated entities' reliance on counterparties and third parties; and
- Achieving certain supervisory goals for the FHLBank System and member credit risk management.

The memorandum describes each challenge area in more detail.

We continually monitor events potentially impacting FHFA and housing finance, and this plan remains flexible according to changing facts, circumstances, and risks. Additionally, OIG may undertake specific work at the request of FHFA management, Congress, or other stakeholders. Therefore, the plan may adapt (e.g., new work added, planned work deferred, etc.) during the fiscal year.

## OIG Offices

### Office of Administration

The Office of Administration provides management and oversight of OIG's administrative functions. Within the Office of Administration, the Budget and Finance Division oversees budget planning and execution; conducts financial forecasting and cash flow analysis; reviews, prepares, and approves OIG monthly and annual financial reports; and oversees official government travel, travel credit cards, and commuter rail reimbursements for the organization. This division also coordinates the annual Government Accountability Office audit of OIG financial statements. The Office of Administration's Human Resources Division offers an array of human resource services, including agency recruitment and staffing, performance management, employee relations, compensation and benefits, work/life offerings, and awards and recognition. The Office of Administration's Information Technology Division manages OIG automated systems, networks, and telecommunications services, working within the framework established by the Office of Management and Budget and the National Institute of Standards and Technology to ensure compliance with government regulations, directives, and industry best practices. The Office of Administration's Procurement and Facilities Division oversees contracting, interagency agreements, and small purchases for the organization. This division manages leased commercial and government-owned office space, parking, government-issued fleet vehicles, Metro transit benefits, identification credentials and personal identity verification cards for logical and physical access control, emergency preparedness, and continuity of operations planning.

## Office of Audits

The Office of Audits conducts independent performance audits with respect to the Agency's programs and operations. It also undertakes projects to address statutory requirements and stakeholder requests. As required by the IG Act, the Office of Audits performs its audits in accordance with standards established by the Comptroller General of the United States, commonly referred to as generally accepted government auditing standards, or the Yellow Book. The Office of Audits also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

## Office of Chief Counsel

The Office of Chief Counsel serves as the legal advisor to OIG, providing guidance on OIG's authorities and responsibilities under the IG Act. It advises OIG staff on legal issues relating to audits, evaluations, inspections, compliance reviews, investigations, administrative inquiries, and procurement. It also provides counsel on OIG policies, procedures, operations, and risk management. The Office of Chief Counsel reviews and comments on FHFA regulations and legislation, as appropriate; manages OIG's Freedom of Information Act and Privacy Act programs; and assists with the issuance and enforcement of OIG subpoenas. Additionally, it is OIG's designated ethics office and serves as the Whistleblower Protection Coordinator. The Office of Chief Counsel represents OIG in administrative and equal employment opportunity matters and coordinates with the Department of Justice to defend OIG in civil litigation.

## Office of the Chief of Staff, Risk Analysis Division

The Office of the Chief of Staff coordinates communication across OIG. The Division is tasked with monitoring, analyzing, and disseminating information on emerging and ongoing risks. Through its work, it contributes data and information to inform stakeholders, including data-driven infographics and white papers, on areas of potential emerging and ongoing risks.

## Office of Compliance

The Office of Compliance has multiple responsibilities. First and foremost, it conducts validation testing to determine whether FHFA effectively implemented agreed-upon corrective actions to remedy deficiencies identified by OIG. The Office also performs inspections to assess whether FHFA is following rules, policies, or procedures it adopted of its own accord, rather than in response to OIG recommendations. The

Office of Compliance performs its work in accordance with the standards established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation*, commonly referred to as the Blue Book. Additionally, the Office administers OIG's Recommendation Tracking System, which monitors each OIG recommendation's status, and advises the divisions to ensure that OIG applies consistent standards for closing recommendations. Further, the Office oversees the annual assessment of OIG's internal controls program per the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. § 3512) as implemented by the Office of Management and Budget's Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office's *Standards for Internal Control in the Federal Government* (also known as the Green Book). In connection with its internal control duties, the Office also oversees OIG's annual inventory process.

## Office of Evaluations

The Office of Evaluations conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the IG Act, Inspectors General must adhere to the professional standards established by CIGIE. The Office of Evaluations performs its work in accordance with the CIGIE Blue Book.

## Office of Investigations

The Office of Investigations investigates allegations of significant criminal, civil, and administrative wrongdoing that affect FHFA and its regulated entities. Investigations are conducted in accordance with professional guidelines established by the Attorney General of the United States and CIGIE's *Quality Standards for Investigations*. The Office of Investigations is staffed with special agents, investigative counsel, analysts, and attorney advisors who work in Washington, D.C., and field offices across the nation. It also manages the OIG Hotline. The Office of Investigations works in partnership with prosecutors and law enforcement agencies throughout the country to effectively carry out our mission.

In FY2025, the Office of Investigations will initiate and continue investigations into:

- Allegations of fraud, waste, and abuse in the programs and operations of FHFA and its regulated entities
- Significant cyber-criminal activity in partnership with FHFA and the regulated entities

- Fraud related to the Coronavirus Aid, Relief, and Economic Security Act and other pandemic relief legislation as appropriate

- Allegations of employee misconduct, including Hotline and whistleblower complaints

# Planned Audits, Evaluations, and Other Projects

## Office of Audits

### FHFA's Controls over Contracted Legal Services

FHFA buys goods and services for its operations. Although not subject to the Federal Acquisition Regulation (FAR), FHFA states in its Acquisition Policy (FHFA Policy No. 503) that it follows the FAR on a voluntary basis, except for flexibilities set forth in its Acquisition Procedures Manual. The manual, along with other supplementary FHFA memoranda, implements the Agency's Acquisition Policy. FHFA's Office of Budget and Financial Management is responsible for managing the Agency's procurement system and all contracting activity. For more than 10 years, FHFA has spent a substantial portion of its contracting funds to obtain various legal services. During the period October 2020 to September 2023, FHFA awarded legal services contracts totaling approximately $68.8 million.

We plan to determine whether FHFA implemented effective controls to ensure that payments for legal services were made in accordance with applicable federal laws and regulations, policies and procedures, and contractual requirements.

### FHFA's Charge Card Programs Risk Assessment

The Charge Card Act, as implemented by Office of Management and Budget Circular No. A-123, Appendix B (revised August 27, 2019), *A Risk Management Framework for Government Charge Card Programs*, requires, among other things, that the Inspector General of each executive agency conduct periodic risk assessments of agency purchase card (including convenience checks) programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments and to perform analyses or audits of these programs as necessary. When annual travel card spending for an agency exceeds $10 million, the Charge Card Act and the Circular require periodic audits or reviews of the agency's travel card program. As a practice, we perform the risk assessment each year that we do not perform an audit of these programs.

We plan to conduct a risk assessment of FHFA's policies and procedures over its purchase card and travel card programs for the timeframe April 1, 2023, to March 31, 2024. We will use the results of the assessment to determine the scope, frequency, and number of periodic audits of FHFA's programs, as appropriate.

### FY2025 FISMA Audit of FHFA's Information Security Program and Practices

The Federal Information Security Modernization Act of 2014 (FISMA) requires the agency Inspector General or an independent external auditor to annually conduct an evaluation of the agency's information security program. We are contracting with an independent public accounting firm to conduct the annual evaluation as a performance audit under our oversight.

The audit objective is to evaluate the effectiveness of FHFA's information security program and practices, including that of OIG, and respond to IG FISMA Reporting Metrics issued by the Office of Management and Budget.

### FY2025 FISMA Audit of FHFA's Privacy Program

Title 42 United States Code § 2000ee-2, Privacy and Data Protection Policies and Procedures (Privacy and Data Protection Code), requires federal agencies to have comprehensive privacy and data protection procedures governing the agency's collection, use, sharing, disclosure, transfer, storage, and security of information in an identifiable form related to agency employees and the public. Such procedures must be consistent with legal and regulatory guidance, including Office of Management and Budget regulations, the Privacy Act of 1974, and section 208 of the E-Government Act of 2002. Additionally, the Privacy and Data Protection Code requires the agency Inspector General or an independent external auditor to periodically conduct a review of the agency's implementation of this section and report the results of the review to Congress.

We are contracting with an independent public accounting firm to conduct the FY2025 review of FHFA as a performance audit under our oversight. The audit objective is to conduct reviews of FHFA's Privacy Program as deemed warranted. Our last audit of the program was during FY2023.

### FHFA's Oversight of the Enterprises' Duty to Serve Requirements

The Housing and Economic Recovery Act of 2008 established a duty for the Enterprises to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural housing – by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for mortgage financing for very low-, low-, and moderate-income families in those markets. FHFA's Duty to Serve regulation requires each Enterprise to develop a three-year Underserved Markets Plan. The plan describes the activities and objectives an Enterprise will undertake to fulfill its Duty to Serve obligations in each underserved market over a three-year period. Annually, the Enterprises implement their respective Underserved Markets Plans and report to FHFA on their progress. FHFA is required to evaluate each Enterprise's compliance with the Duty to Serve statute, rate the performance of each Enterprise as to the extent of the compliance, and submit its evaluations to Congress. FHFA's evaluation of each Enterprise includes a quantitative assessment that compares performance to targets in the Underserved Markets Plan and a qualitative assessment that assesses an Enterprise's actions on the needs of each underserved market. FHFA's oversight of the Duty to Serve program is key to ensuring solutions are developed to address challenges for affording and sustaining homeownership for underserved and underrepresented communities.

We plan to determine whether FHFA's Division of Housing Mission and Goals provided effective oversight of the Enterprises' compliance with Duty to Serve goals and requirements.

## FHFA's Decision to Change the Tri-Merge Reporting Requirement

In May 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (Economic Growth Act). This law requires validation and approval of credit score models the Enterprises use to approve mortgages. The law also requires FHFA to establish regulations for the new credit score models. In August 2019, FHFA published its regulation on the use of credit score models, as required by the Economic Growth Act. On October 24, 2022, FHFA announced the validation and approval of two new credit score models. FHFA also announced that the Enterprises would permit lenders to use either tri-merge credit reporting, in which credit reports from each of the three nationwide consumer reporting agencies are used, or bi-merge credit reporting, in which credit reports from two nationwide consumer reporting agencies are used. FHFA aligned the implementation date of the bi-merge credit report requirement with the transition to the new credit score models. As of February 2024, FHFA expects this aligned transition to occur in the fourth quarter of 2025. To ensure a smooth transition, FHFA will review and approve all plans and communications before implementation.

We plan to determine whether FHFA identified, analyzed, and responded to risks related to its decision to replace the tri-merge credit report requirement with a bi-merge credit report requirement. We will also determine whether FHFA complied with applicable laws, regulations, and internal policies and procedures when making its decision.

## FHFA Oversight of Multifamily Servicing and Portfolio Monitoring

The Enterprises' multifamily business provides mortgage market liquidity primarily for properties with five or more residential units. These include apartment communities, cooperative properties, seniors housing, dedicated student housing, and manufactured housing communities.  As of December 31, 2023, Fannie Mae held $470 billion in multifamily mortgages.  Multifamily mortgages are large, complex loans with credit profiles influenced by factors such as: current and anticipated cash flows from the property; vacancy rates; the type, location, and condition of the property; the borrower's financial strength; the financing structure; and market trends. Multifamily mortgage servicing is generally performed by the lender that sold the mortgage to the Enterprises. As a seller/servicer, the lender is responsible for ongoing evaluation of the financial condition of properties and property owners.  The lender also administers various types of loan and property-level agreements, including agreements covering replacement reserves, completion of repairs, and operation and maintenance, as well as conducting routine property inspections.  Servicers are responsible for key activities that directly influence current and anticipated cash flow—such as managing borrower payments, property maintenance, and compliance with loan agreements—which makes servicers' performance critical to the success of the underlying loan.  The Enterprises monitor the financial strength and performance of the servicer, as well as the performance and risk characteristics of the loans and the underlying properties.

We plan to assess whether FHFA's Division of Enterprise Regulation (DER) conducted effective oversight of Fannie Mae's multifamily mortgage servicer and portfolio monitoring functions.

## FHFA's Examination Activities of the Diversity and Inclusion Programs at the Regulated Entities

FHFA is tasked, by law, to ensure that the regulated entities comply with diversity and inclusion requirements. Established in April 2024, the Division of Public Interest Examination oversees the Office of Minority and Women Inclusion's efforts to conduct examination activities of the diversity and inclusion programs for the regulated entities.  According to FHFA's FY2023 Performance and Accountability Report, in that fiscal year FHFA issued Diversity and Inclusion reports of examinations to the Enterprises, CSS, and four Federal Home Loan Bank System regulated entities.

We plan to assess the effectiveness of the Division of Public Interest Examination's oversight of diversity and inclusion programs at the regulated entities.

## FHFA's Supervision of the Enterprises' Bank Secrecy Act / Anti-Money Laundering Programs

The Enterprises are subject to financial crimes risk, which may occur through fraud, money laundering, and sanctions violations committed against or facilitated (either knowingly or unknowingly) by the Enterprises. The Bank Secrecy Act's (BSA) objective is to safeguard the U.S. financial system from illicit uses such as money laundering, terrorist financing, and other illegal activities, and it does this in part by requiring certain financial institutions to report suspicious activity. Treasury's Financial Crimes Enforcement Network (FinCEN) implements, administers, and enforces the BSA. The BSA, along with related laws, regulations, and compliance requirements, including anti-money laundering (AML) provisions, are commonly referred to as "BSA/AML." The Enterprises are required by FinCen regulations to establish BSA/AML compliance programs and report suspicious activities by filing Suspicious Activity Reports. Failure to comply with BSA requirements exposes an Enterprise to enforcement actions, including civil and criminal penalties, and to reputational risk.

We plan to determine whether DER and FHFA's Division of Accounting and Financial Standards have provided effective oversight of the Enterprises' BSA/AML programs.

## FHLBank Mortgage Programs – Servicing

The FHLBanks are authorized to purchase mortgages under the Acquired Member Assets regulation and as of June 30, 2024, held approximately $65 billion of mortgage loans (conforming loans and loans guaranteed or insured by a department or agency of the U.S. government) on their balance sheets, which is up from $61.3 billion at year-end 2023. While FHLBanks hold these loans in their portfolio, they do not perform the related servicing. FHLBanks contract with servicers to process payments (e.g., collecting principal and interest, taxes, and insurance) and perform the necessary loan administration functions. In some instances, the member bank selling the mortgage may retain the servicing function, while in others, FHLBanks may contract with counterparties, such as nonbank servicers, to service the loans on their behalf for an agreed upon fee. This reliance on third-party servicers comes with risk, namely that the third-party servicer will not be able to meet its financial obligations to the FHLBanks or will not service mortgages in accordance with laws, regulations, and sound practices. Further, the FHLBanks' reliance upon third-party servicers presents a particular challenge to FHFA because, while the Agency oversees the FHLBanks' risk management practices, it lacks the statutory authority to supervise third-party servicers directly.

We plan to determine whether FHFA has provided sufficient oversight of the servicing of mortgages acquired through FHLBanks' mortgage programs.

## DBR Models and Products

FHFA's Division of Federal Home Loan Bank Regulation (DBR) examiners collaborate with DBR analysts, modelers, and economists in carrying out the supervision of the FHLBanks. DBR also conducts an off-site monitoring program that includes review and analysis of monthly and quarterly financial reports and information submitted to FHFA, monitoring of debt issuance activities of the Office of Finance, and tracking of financial market trends. DBR uses a number of systems and tools, including in-house and third-party financial models, to conduct this monitoring and analysis and to support examiners in their evaluation of FHLBank model results. The use of models exposes DBR to model risk just as it does the FHLBanks. However, where model risk for the FHLBanks is defined as "the risk of loss resulting from model errors or the incorrect use or application of model output," model risk for DBR manifests itself as the risk of incorrect supervisory conclusions.

We plan to determine whether DBR has implemented processes and procedures needed to control its model risk and ensure accurate analysis products.

## DBR Oversight of FHLBank Market Risk

Market risk exposures caused by changes in interest rates, foreign exchange rates, commodity prices, or equity prices, if not controlled, can threaten an FHLBank's liquidity, earnings, economic capital, and solvency. Resulting changes to the credit ratings of consolidated obligations could adversely affect the FHLBanks' ability to access the capital markets, their primary source of funding, on acceptable terms. An FHLBank uses complex models to identify, measure, and monitor its market risk exposures, and to make decisions on how best to control them. Given the unpredictability of the financial markets, capturing all potential outcomes in these analyses is extremely difficult. Further, these models are subject to model risk – the risk that model errors or the incorrect use or application of model output could lead management to make incorrect decisions and suffer loss.

We plan to determine whether DBR provides sufficient oversight of the FHLBanks' use of models to identify, measure, and monitor market risk.

## DBR Workforce Planning

FHFA's Workforce Planning Policy (FHFA Policy No. 129, September 18, 2023) established an FHFA workforce planning process to ensure strategic alignment, identify workforce gaps, and develop and implement strategies to recruit, hire, develop, engage, and retain high quality, diverse talent.  According to this policy, FHFA divisions and offices will begin workforce planning within six months and complete initial workforce plans within one year from beginning their efforts.  Once established, divisions and offices will evaluate workforce plans and success measures against strategic plans and workforce goals at least annually, to drive plan revisions, as needed, and to inform annual headcount and budget requests.

We plan to determine whether DBR has implemented a systematic workforce planning process to ensure that it has the resources to meet its statutory responsibilities to ensure the FHLBanks' safety and soundness.

## FHFA's Vulnerability Management Program

Vulnerabilities are often found in individual software components, systems comprised of multiple components, or the interactions between components and systems. They are typically exploited to weaken the security of a system, its data, or its users, with impact to their confidentiality, integrity, or availability. According to the Department of Homeland Security, recent reports from government and industry partners indicate that the average time between discovery and exploitation of a vulnerability is decreasing as today's adversaries are more skilled, persistent, and able to exploit known vulnerabilities.  The federal government must continue to take deliberate steps to reduce the overall attack surface and minimize the risk of unauthorized access to federal information systems as soon as possible.  It is essential to aggressively remediate known systems vulnerabilities to protect federal information systems and reduce cyber incidents.

We plan to determine whether FHFA's vulnerability management controls and processes for managing risk adhere to federal and FHFA guidance.

## External Penetration Test of FHFA's Network and Systems

FISMA requires agencies, including FHFA, to develop, document, and implement agency-wide programs to provide information security for the information and information systems that support the operations and assets of the agency, and to periodically test those assets.  To support our ongoing oversight of FHFA's implementation of FISMA, we plan to perform an audit of FHFA's networks and information security.  Our last external penetration test of the Agency was in 2023.

We plan to determine whether FHFA's security controls are effective to protect its network and systems against external threats.  As part of this audit, we also plan to conduct social engineering tests.

## FHFA's Post-Award Contract Management

Government procurement is the process through which government agencies acquire goods and services. Although not subject to the FAR, FHFA states in its Acquisition Policy (FHFA Policy No. 503) that it follows the FAR on a voluntary basis, except for flexibilities set forth in its Acquisition Procedures Manual. The manual, along with other supplementary FHFA memoranda, implements the Agency's Acquisition Policy.

FHFA's Office of the Chief Operating Officer oversees the Agency's day-to-day operations, including contracting. FHFA's obligated contract amounts were approximately $100 million in FY2023.

We plan to assess the effectiveness of FHFA's post-award contract management.

## FHFA's Controls over Payroll

Payroll is a large percentage of an entity's operating costs. Controls over payroll are important because they help to protect against potential threats, including overpayments or underpayments, paying fictitious or former employees, noncompliance, and fraud. Controls over payroll include change authorizations, change tracking logs, error-checking reports, expense trend lines, restricting access to records, separation of duties, and audits. An organization without proper controls in place over payroll procedures runs the risk of compensation being issued to nonexistent or terminated employees. In addition, an organization can spend more than necessary through overpayments to employees if controls are not in place to detect the overpayments. FHFA's annual payroll is approximately $200 million.

We plan to determine if FHFA's controls over payroll were designed and implemented in accordance with federal requirements.

## FHFA's Controls over E-Verify Processing for Federal Employees

During FY2022, FHFA hired approximately 120 federal employees. Federal law generally prohibits employment of noncitizens who are not authorized to work in the United States, and requires employers, including federal agencies, to take certain steps to verify that employees are not unauthorized workers. The United States Citizenship and Immigration Services' E-Verify program allows employers to electronically confirm the employment eligibility of their employees.

We plan to determine if FHFA's controls over E-Verify processing for federal employees were designed and implemented in accordance with federal requirements.

## Office of Evaluations

### FHFA and FHLBank Authority to Obtain Nonpublic Information Related to the Financial Condition of FHLBank Members

In FHFA's November 2023 report *FHLBank System at 100: Focusing on the Future*, the Agency identified the need for increased coordination among the FHLBanks, their members' primary federal regulators, and the Federal Reserve discount window. The Agency stated that such coordination is "critical to ensure the FHLBanks are fully apprised of members' financial standing and that all liquidity needs can be met during times of market stress."

The FHLBanks use primary regulators' supervisory information in their credit risk assessments of members. According to FHFA, information on members' creditworthiness, such as the examination ratings given by their regulators, should be factored promptly into the FHLBanks' member credit rating processes. These processes allow the FHLBanks to adjust their lending terms and collateral requirements to mitigate increasing credit risk as a member's financial condition deteriorates.

Access to other regulators' supervisory information about the FHLBanks' members is important to FHFA as well so that it may calibrate its guidance to the FHLBanks in situations where a member's financial condition rapidly declines. When preparing for a member's failure, FHFA stated that "all appropriate officials, including those at the primary federal regulators, FHFA, and the applicable FHLBank must agree on the course of action when necessary and properly document that agreement."

By statute, FHLBanks are granted access to the primary federal regulators' reports of examination for their members. However, according to FHFA, the information may lag behind as the "FHLBanks may receive reports of examination long after problems are identified." Furthermore, the Agency stated that the examination reports are not directly available to it.

Using the lens of the 2023 bank failures, this evaluation will assess whether the FHLBanks receive sufficient supervisory information from their members' primary federal regulators to manage their relationship with failing members in a safe and sound manner. It will also assess whether FHFA has sufficient access to such information to advise an FHLBank when a member's financial condition deteriorates.

### FHFA's Oversight of the Enterprises' Multifamily Businesses

The Enterprises' multifamily businesses provide liquidity to the mortgage market and contribute to the achievement of FHFA's affordable housing goals and conservatorship objectives. According to FHFA's *Annual Report to Congress – 2023*, the Enterprises' combined multifamily business volumes for the years 2022-23 exceeded $243 billion. As of June 30, 2024, the combined multifamily portfolios exceeded $925 billion. FHFA has acknowledged "recent stress" in the commercial real estate sector and challenges for certain sectors in the multifamily industry.

The FHFA Director has a statutory duty to ensure that the Enterprises' multifamily businesses operate in a safe and sound manner and comply with FHFA's regulations and prudential management and operations standards. FHFA reported in its *Annual Report to Congress – 2023* that governance at the board and senior management levels of Fannie Mae and Freddie Mac "needs further improvement" and "needs improvement," respectively, and that multifamily credit risk exposure management at each Enterprise "needs improvement." A year earlier, FHFA had reported that multifamily risk management at the Enterprises was "generally satisfactory[.]"

Since 2021, FHFA has examined various aspects of the Enterprises' multifamily businesses, issued adverse examination findings, and monitored management's remediation of those findings. In FY2024, we initiated an evaluation to assess the effectiveness of FHFA's supervisory oversight of Freddie Mac's multifamily business, in particular the Agency's supervisory efforts to ensure the Enterprise addresses known risk management deficiencies. That evaluation is ongoing.

In FY2025, we plan to conduct a similar evaluation to assess the effectiveness of FHFA's supervisory oversight of Fannie Mae's multifamily business.

## FHFA's Implementation of Processes for Approving the Enterprises' New Business Activities

On April 28, 2023, an FHFA regulation (12 C.F.R. Part 1253) went into effect that required the Enterprises to provide notice to FHFA of new business activities and to obtain prior approval from FHFA before offering new products (the regulation). The regulation establishes that FHFA determines which new activities merit public notice and comment, and therefore should be treated as new products, subject to prior approval. Consistent with the Safety and Soundness Act, certain activities are not considered a new activity or a new product, and accordingly do not require notice or prior approval. Those activities include enhancements and modifications to automated loan underwriting systems, mortgage terms and conditions, and underwriting criteria. The regulation expanded that list to include activities performed solely to facilitate the administration of an Enterprise's internal affairs to conduct its business, such as deploying a new human resources system or making efficiency improvements related to analyzing, processing, and documenting internal information.

Under the regulation, FHFA acknowledged the significant impact the Enterprises' activities have on the U.S. housing finance system, market participants, and the broader economy. In the year after the regulation became effective, FHFA reviewed 10 new Enterprise activities and determined that three were new products. FHFA received a request for new product approval for Freddie Mac's proposal to purchase closed-end second mortgages and published a public notice thereon. As of June 2024, FHFA had not received a request for approval of the other two new products from the Enterprises and has not published public notices.

This evaluation will assess whether FHFA complied with its internal policies and procedures and the regulation when it determined that the three new activities were new products, including Freddie Mac's purchase of closed-end second mortgages.

## Office of Compliance

### Compliance Review: FHFA's Housing Finance Examiner Commission Program

In a 2011 evaluation report, we found that only about one-third of the Agency's examiners were commissioned and that this lack of commissioned examiners impeded the efficiency and effectiveness of FHFA's examination programs. At the time, FHFA was developing its Housing Finance Examiner (HFE) commission program to fix this problem. We recommended that the Agency "[m]onitor the development and implementation of the examiner [commission] program and take needed actions to address any shortfalls." OIG reports issued in 2015, 2017, 2018, and 2021 found that FHFA was not making progress in implementing a viable HFE program. FHFA had not taken all agreed-upon corrective actions to improve the program, few enrollees had completed it and earned their commissions within four years, and FHFA's number of commissioned examiners had declined.

On June 30, 2022, DBR issued rules incorporating each HFE candidate's commissioning program progress as part of the candidate's annual performance plan. DBR requires an HFE commission for selection as an Examiner-in-Charge, with exceptions requiring the DBR Deputy Director's approval. DER also incorporated commissioning program progress into its own annual performance plans, but DER does not require its Examiners-in-Charge to be commissioned as HFEs, it is merely a preference.

For a specified review period, our compliance review will assess candidates' progress through the HFE commission program and determine whether DBR and DER are prioritizing candidates with an HFE commission when making examination leadership decisions.

### Compliance Review: FHFA's Compliance with Federal Regulations and Agency Policy on Employee Financial Disclosures

Our 2022 audit found that FHFA did not consistently conduct timely reviews of employees' financial disclosure reports due to a lack of adequate internal controls over its financial disclosure process. Additionally, we found that FHFA did not always notify employees promoted to covered positions of their disclosure obligations because the Agency's Office of Human Resources Management failed to notify the Office of General Counsel. Lastly, several FHFA employees either did not file, or did not timely file, their financial disclosure reports after the Agency notified them, due to a lack of adequate internal controls. Without a timely review by the Agency, employees in covered positions may have a conflict of interest that may not be disclosed or reviewed in a timely manner.

We made three recommendations, the first being that FHFA's Designated Agency Ethics Official (DAEO) or Assistant DAEO (ADAEO) perform and document "technical reviews and conflict of interest analysis within 60 days of receiving employee financial disclosure reports as required by Office of Government Ethics regulations and FHFA policy." Our second recommendation was that the Office of Human Resources Management Director "promptly notify in writing the DAEO or ADAEO regarding employee promotions to a covered position consistent with FHFA policy." Our third recommendation was that the DAEO or ADAEO "ensur[e] that employees file their financial disclosure reports timely as required by [Office of Government Ethics] regulations and FHFA policy." FHFA agreed with all three recommendations and pledged corrective actions in response.

Our compliance review will assess the Agency's implementation of these corrective actions during a specified review period.

### Compliance Review: FHFA's Documentation and Tracking of Its Initiatives to Advance Equity and Support for Underserved Communities

Our 2023 audit found that initiatives undertaken by the Agency's Office of Fair Lending Oversight to advance equity and support for underserved communities generally complied with their stated purposes. However, we found weaknesses with the Agency's efforts to: (1) track fair lending assessments timely, efficiently, and accurately for retrieval; (2) fully document its determination of the compliance risk level and the conclusion in its compliance assessments as part of its fair lending assessments; and (3) document quality checks performed on the Enterprises' Fair Lending Reports' underlying data.

We made three recommendations; the first was that the Office of Fair Lending Oversight's Associate Director "[d]evelop and implement a process or mechanism that improves FHFA's ability to track and retrieve all required fair lending assessments and supporting documentation in a timely, efficient, and accurate manner." Our second recommendation was that the Associate Director "[e]nsure that determinations of the level of compliance risk and conclusion for all fair lending assessments are documented as part of its fair lending policy assessments." Our third recommendation was that the Associate Director "[u]pdate policy, procedures, and guidelines to include specific steps for performing and documenting data quality checks for the Enterprises' Fair Lending Reports." FHFA agreed with all three recommendations and pledged corrective actions in response.

Our compliance review will assess the Agency's implementation of these corrective actions during a specified review period.

## Compliance Review: DER's Review of Supervision Guidance

In a 2019 evaluation report, we found that when the Agency issued 22 supplemental examination modules for field testing, it did not establish timelines for finalizing the modules, nor did it hold anyone responsible for completion of the modules in any annual performance plan. We also found that although the Agency had issued the modules for field testing over the years between 2012 and our evaluation, only five had been completed; moreover, the Agency did not have a reliable process by which the modules would be field tested.

We recommended that the Agency establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual. The Agency issued an Operating Procedures Bulletin in April 2020, requiring DER's Office of Risk Policy to conduct and document "a formal review of in-force supervisory policy and examination guidance on a three-year cycle for potential updates or sooner in the event of factors and events that significantly affect existing policy and guidance…."

Our compliance review will determine whether the Office of Risk Policy has conducted and documented one or more such reviews in the four years that have elapsed since the issuance of the Operating Procedures Bulletin.

## Compliance Review: FHFA's Oversight of Fannie Mae's Servicer Reimbursement Operations

A 2013 OIG evaluation reviewed FHFA's oversight of the process by which Fannie Mae reimburses mortgage servicers for various payments they make on behalf of delinquent borrowers, such as payments for property maintenance, insurance, taxes, and loan liquidation costs. OIG found that FHFA had increased its oversight of Fannie Mae's servicer reimbursement operations. However, OIG also determined that errors made by the contractor that processed servicers' reimbursement claims for Fannie Mae resulted in the Enterprise underpaying on certain claims and overpaying on others, that Fannie Mae's oversight of that contractor focused on contractual compliance rather than minimizing overpayments, and that Fannie Mae lacked the remedial means to recover most overpayments.

Among other steps, we recommended that FHFA ensure that Fannie Mae takes the necessary actions to reduce the contractor's processing errors. We also recommended that FHFA require Fannie Mae to (a) quantify and aggregate its overpayments to servicers regularly; (b) implement a plan to reduce these overpayments by (i) identifying their root causes, (ii) creating reduction targets, and (iii) holding managers accountable; and (c) report its findings and progress to FHFA periodically. FHFA agreed with these recommendations and pledged to take certain corrective actions in response. Based on these promised corrective actions, we closed the first recommendation in 2014 and the second one in 2018.

Our compliance review will assess the Agency's implementation of the promised corrective actions during a specified review period.

## Compliance Review: FHFA's Oversight of Proposed Retention Awards for Enterprise Senior Executives

In 2022, OIG reported that a Fannie Mae executive's "retention award" appeared to be a bonus, which 12 U.S.C. § 4518a forbids being paid to a senior executive of an Enterprise under conservatorship. At OIG's recommendation, FHFA adopted a procedure for reviewing and analyzing proposed retention awards for Enterprise senior executives to ensure that they would not violate this statutory prohibition. The Enterprise seeking approval must provide seven items of information, which FHFA must then review and determine: (1) whether the award's rationale, amount, and timing are supported; and (2) whether the award is intended to incentivize future work, rather than reward the employee for work already performed (in which case it would be a bonus, and therefore impermissible).

Our compliance review will assess the Agency's implementation of the promised corrective actions during a specified review period.

### Compliance Review: FHFA's Oversight of Proposed Monetary Awards, Recruitment Bonuses, and Retention Allowances for Agency Personnel

A 2021 audit found that the Agency "did not always follow its written policies for monetary awards, recruitment bonuses, and retention allowances," and that its "Excellence Awards program was not formalized in written policy." We recommended that FHFA remind its leadership of the Agency's rules governing monetary awards, recruitment bonuses, and retention allowances, and that FHFA revise its awards policy to include Excellence Awards. The Agency accepted the recommendations and took corrective actions that led OIG to close the recommendations in 2022.

Our compliance review will assess the Agency's adherence to its revised rules applicable to monetary awards, recruitment bonuses, and retention allowances, during a specified review period.

### Compliance Review: FHFA's Adherence to Binding Operational Directives

The Department of Homeland Security issues binding operational directives (BODs) to federal executive branch agencies for purposes of safeguarding federal information and information systems. In a 2020 audit, we found that FHFA did not fully comply with two BODs. We recommended, among other things, that FHFA's Chief Information Security Officer (CISO) "develop and maintain policies and procedures for implementing [Department of Homeland Security] BODs." Subsequently, FHFA issued the Binding Operational Directives Procedure (Procedure), and we closed the recommendation in 2022.

Our compliance review will assess whether the Agency has implemented the Procedure's requirements. Specifically, we will determine: (1) whether the FHFA Office of Technology and Information Management security staff, upon receipt of a BOD, consulted with the CISO to decide who would take the lead to assess the BOD's requirements; (2) whether any exceptions to the BOD's requirements (i.e., requirements that FHFA determined were not achievable) were documented and approved by the CISO; and (3) whether

FHFA retains applicable records in accordance with its Comprehensive Records Schedule.

## Inspection: FHFA's Adherence to Ombudsman Submission Handling and Tracking Procedures

FHFA's Office of the Ombudsman is required by statute to be "responsible for considering complaints and appeals, from any regulated entity and any person that has a business relationship with a regulated entity, regarding any matter relating to the regulation and supervision of such regulated entity by the Agency."  In 2021, FHFA issued an Operating Procedures Bulletin that established procedures to handle and track submissions received by the Ombudsman.

Our inspection will assess the Ombudsman's adherence to selected submission handling and tracking procedures during a specified time period.

## Inspection: FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance After Rejecting OIG Recommendations

A 2011 OIG evaluation determined that FHFA's oversight of Enterprise executives' compensation was insufficient because it generally accepted the Enterprises' annual at-risk compensation proposals rather than verifying and testing the accuracy of the reported information and conclusions. We recommended that FHFA test and verify the Enterprises' proposals for the "at-risk" element of executive compensation, which has been estimated by FHFA to have constituted 70 percent of an executive's annual compensation.

In December 2011, FHFA advised that it had adopted enhanced controls, including testing and verification procedures, to strengthen its oversight of Enterprise proposals for at-risk compensation for Enterprise executives. We closed our recommendation in 2012 on this basis.  However, a 2016 compliance review found that FHFA had discarded the promised enhanced controls upon adoption of a new Enterprise executive compensation structure.  FHFA rejected OIG's recommendation to develop controls to test and verify that Enterprise proposals for the at-risk element of compensation based on Corporate Scorecard performance are reasonable and justified.

Our inspection will ascertain Enterprise executive compensation during a specified period, identify the Enterprises' Corporate Scorecard ratings for that period, and determine whether all or some of an executive's at-risk compensation was, per policy, forfeited in cases where scorecard ratings were below expectations.

## Office of the Chief of Staff, Risk Analysis Division

### White Paper: Update on Mortgage Insurers as Enterprise Counterparties

Mortgage insurance is the most common tool supporting Enterprise mortgages to low-downpayment borrowers. For mortgage loans that exceed 80 percent loan-to-value, it reduces potential losses for the Enterprises in the event of foreclosure. Counterparty risk arises from the potential that mortgage insurers may fail to pay claims. Private mortgage insurers are a significant source of counterparty risk for the Enterprises. Our 2018 white paper discussed mortgage insurer concentration risk and the challenges inherent in a monoline business, and a 2021 update discussed the evolving landscape of the mortgage insurance industry and highlighted pandemic-related stresses.

We plan to explore how economic shifts since 2021 have impacted Enterprise exposure to mortgage insurers and the associated risks.

### White Paper: Disaster Risk Update

The Enterprises recognize that they may be exposed to the risk of losses on mortgages they own or guarantee from disasters such as floods, earthquakes, and wildfires. A number of factors, such as the growing risk of floods or fires in many parts of the country, may cause disaster risk to increase. FHFA also has recognized risks that disasters pose to the Enterprises and called risks relating to uninsured or underinsured losses from flooding, earthquakes, and other natural disasters "material" risks to the Enterprises.

In 2021, we reported on disaster risk to Enterprise single-family mortgages; in this whitepaper, we will provide an update on Enterprise disaster risk, as well as FHFA and Enterprise actions to address this risk.

### Infographic: Cost Burden: Rising Mortgage-Related Costs

Since 2021, average mortgage interest rates have more than doubled, contributing to higher mortgage payments for new borrowers. However, principal and interest only make up a portion of the typical mortgage payment. As a result, even homeowners with an existing low, fixed-rate mortgage can experience rising mortgage payments as other payment components come under pressure. For example, some borrowers have faced significant increases in property and flood insurance costs.

This project will explain the various components of a typical mortgage payment. It will discuss Enterprise requirements for specific components, such as various forms of insurance, and it will explore recent trends in those components.

## External Projects

### External Peer Review (Blue Book)

In accordance with CIGIE's *Guide for Conducting External Peer Reviews of Inspection and Evaluation Organizations of Federal OIGs*, we will review another OIG's inspection and evaluation organization. An external peer review assesses whether an OIG's inspection and evaluation organization's internal policies and procedures are consistent with CIGIE's Quality Standards for Inspection and Evaluation, and whether the organization's reports comply with those standards and its associated internal policies and procedures.

### Council of Inspectors General on Financial Oversight – Financial Stability Oversight Council's Designation of Nonbank Financial Companies

The Council of Inspectors General on Financial Oversight (CIGFO) regularly convenes working groups to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council. As a statutory member of CIGFO, FHFA-OIG may participate in, or lead, these working groups.

We plan to participate in CIGFO's working group to assess (1) the sufficiency of the new guidance to effectively respond to financial stability threats under Section 113 of Dodd-Frank; (2) the extent to which the FSOC Members were engaged in the development of the new guidance considering such factors as lessons learned and any identified barriers from earlier guidance; and (3) the impact on the nonbank designation process as a result of the new guidance compared to the preexisting 2019 guidance and process.

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

# HOTLINE

To Report Suspected

## FRAUD, WASTE, OR ABUSE

in FHFA Programs or Operations
(including mortgage fraud referrals involving FHFA, Fannie Mae, Freddie Mac, and Federal Home Loan Banks)

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202–318–0358

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Federal Housing Finance Agency
Office of Inspector General
400 7th Street SW
Washington, DC 20219