

**HOUSING OVERSIGHT: TESTIMONY OF
THE HUD AND FHFA INSPECTORS GENERAL**

HEARING
BEFORE THE
SUBCOMMITTEE ON HOUSING AND
INSURANCE
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTEENTH CONGRESS
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Wednesday, June 26, 2024

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HOUSING OVERSIGHT: TESTIMONY OF THE HUD AND FHFA INSPECTORS GENERAL

Wednesday, June 26, 2024

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Warren Davidson [chairman of the subcommittee] presiding.

Present: Representatives Davidson, Posey, Norman, Fitzgerald, Flood, Lawler, De La Cruz, Houchin, Timmons, Cleaver, Waters, Tlaib, Pressley, Garcia, Horsford, Pettersen, Waters, and Green.

Chairman DAVIDSON. The Subcommittee on Housing and Insurance will come to order.

Without objection, the chairman is authorized to declare a recess of the committee at any time.

This hearing is entitled “Housing Oversight: Testimony of the HUD and FHFA Inspectors General.”

Without objection, all members will have five legislative days within which to submit extraneous materials to the chairman for inclusion in the record.

I now recognize myself for 5 minutes to give an opening statement.

HON. WARREN DAVIDSON, CHAIRMAN OF THE SUBCOMMITTEE ON HOUSING AND INSURANCE, A U.S. REPRESENTATIVE FROM OHIO

Today, we will hold another hearing to bring accountability to government agencies and regulators, a top priority for me as a subcommittee chairman in this Congress. It is a critical theme as the Nation continues to experience one of the toughest housing markets that we have had.

Testifying are the Inspectors General of both HUD, Housing and Urban Development, and FHFA, the Federal Housing Finance Agency, whose work has been invaluable to Congress and to the American people.

Inspectors General are in a unique position to ask tough questions, dig deeper, and ultimately root out waste, fraud, and abuse in the Federal Government. Fundamentally, they hold the government accountable for doing what the law says, whether or not people agree that it should be the law.

When it comes to HUD and FHFA, these two Inspectors General have their work cut out for them.

Ms. Oliver Davis and her team have uncovered many deficiencies at HUD, including the failure of several public housing agencies to deliver on HUD's mission statement to provide decent, safe, and sanitary housing.

We recently held a hearing on this very topic, and I can say that both sides of the aisle were appalled by things going on in our Public Housing Authority. The conditions for many residents of public housing are simply unacceptable, which is why the committee has considered several bills to hold Public Housing Authorities accountable.

We all know that these problems are likely just the tip of the iceberg for HUD. However, I have introduced my own bill to create a bipartisan commission that would take a broader look at HUD, and their job will be to evaluate the entire agency, provide recommendations to Congress to make HUD work more efficiently and effectively, frankly, to update the authorizations, many of which have lapsed, and to hopefully make some improvements of dealing with benefit cliffs and kind of a standardized income asset test that would address things that Secretary Fudge pointed out in dialog when she came to testify in January.

When it comes to government regulators like FHFA, which oversee about 70 percent of the Federal housing market through Fannie Mae and Freddie Mac, the first rule should be to do no harm. I cannot say that FHFA is following that rule too clearly these days.

Now is an especially crucial time for FHFA to provide stability and certainty and transparency in housing markets. American families seeking affordable housing need a safe and steady hand behind the wheel. Instead, they are getting a confused study in contrast.

On the one hand, FHFA has made so-called mission activities front and center for its stated objective to, quote, promote affordable housing. On the other hand, it has rolled out a pricing grid that would reduce affordability for creditworthy borrowers. On the other hand, FHFA finalized a rule to require approval and public comment for the Government-Sponsored Enterprises' (GSEs') new products and activities.

FHFA is supposed to promote home ownership and help first-time borrowers. In an effort to do that, they have green lit a title insurance waiver program that has no transparency—and it is not clear that it will—instead of helping, cause harm to these borrowers.

They are now considering a risky second-lien, actually have decided to move forward with a second-lien proposal for existing homeowners that would essentially add more debt against a secured asset and not just expose the borrowers to problems with their own mortgages but expose the entire mortgage-backed securities market to additional risk and potentially cause a lot of harm.

If only there were a precedent to learn from. Clearly there is, in fact, precedent, and this is something we have no input from any constituency saying the second liens on mortgages is in real demand in the market. I have no one coming and saying, "Congressman, as chairman of Housing and Insurance, you have to get this done."

Instead, everyone is sounding the alarm. Can we not learn from the benefits of history and they are not even following their own product development process—product approval process.

So the list is long. I hope today's hearing will provide more clarity on FHFA's recent decisions. Even well-intentioned policies should not come at the expense of safety and soundness of the housing market.

I look forward to hearing the testimony of both HUD and the FHFA Inspectors General (IGs). I thank you both for your work and for the opportunity for Congress to perform the essential oversight of your activities as Inspectors General.

I now recognize the gentleman from Missouri, the ranking member of the subcommittee, Mr. Cleaver, for 4 minutes for his opening comments.

HON. EMANUEL CLEAVER, RANKING MEMBER OF THE SUBCOMMITTEE ON HOUSING AND INSURANCE, A U.S. REPRESENTATIVE FROM MISSOURI

Mr. CLEAVER. Thank you, Mr. Chairman.

I will begin by declaring that we will never—never—reduce or eradicate poverty until we adequately address the deficit in affordable housing.

Housing is less affordable today than at any point in modern history. The lack of affordable housing has fueled a national crisis of fair and affordable housing and homelessness.

HUD is on the front lines in responding to the devastating impacts of this crisis. Today, HUD helps provide decent, safe, and affordable housing to more than 4.3 million—4.3 million—low-income families through its public housing, rental subsidy, and voucher programs.

FHFA ensures the enterprises remain financially sustainable while providing market stability for renters and borrowers, especially for underserved populations and communities.

Since 2008, FHFA has served as a conservator for the enterprises following their insolvency due to poor management and investment decisions, including failure to hold sufficient capital and purchases of predatory subprime mortgages.

In May 2024, FHFA issued its final Fair Lending, Fair Housing, and Equitable Housing Finance Plan Rule. The Equitable Housing Finance Plans direct the enterprises to assess lending disparities in their respective portfolios and to establish a plan to enhance the availability of fair and affordable housing and mortgage lending to low-to moderate-income families and people of color.

The rule will help increase public transparency and accountability for the enterprises and reinforce oversight of unfair and deceptive practices to FHFA's fair housing and fair lending oversight programs.

This is historic work. Together, both the HUD and the FHFA Offices of Inspector General (OIGs) play critical roles in advancing the integrity, accountability, and effectiveness of HUD and FHFA, respectively, and their Federal housing and finance programs.

We are fortunate to have the perspective of HUD Inspector General Oliver Davis and FHFA Inspector General Brian Tomney be-

fore the subcommittee today. The HUD and FHFA OIG are both mandated to combat fraud, waste, and abuse.

Contrary to claims of HUD's inefficiencies, HUD, under the Biden-Harris Administration, has worked diligently to address outstanding recommendations from OIG, including those resulting from harmful policies enacted under the Trump Administration.

I look forward to this exchange today.

Thank you, Mr. Chairman.

Chairman DAVIDSON. Thank you, Mr. Cleaver.

I now recognize the ranking member of the committee.

HON. MAXINE WATERS, RANKING MEMBER OF THE FINANCIAL SERVICES COMMITTEE, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Thank you very much, Mr. Chairman.

Housing is the number one domestic issue and a priority for voters all across the political spectrum. When Americans spend on average 30 to 50 percent of their income on housing, it is no wonder that their paychecks do not go far as they should. Yet, MAGA Republicans are ignoring Americans' calls to build more housing and cut costs.

While I value the insights of the Inspectors General here today, they cannot offer Congress legislative solutions to act on but they do not need to either, because we already know what to do.

This committee needs to get serious and pass my bills, H.R. 4233, to create over a million affordable and accessible homes; H.R. 4232, to end homelessness; and H.R. 4231, to restore the American dream of home ownership.

I thank you. I yield back, and I await the testimony of the Inspectors General to see if they can help us create more housing or maybe they are here for something else. I do not know.

Thank you. I yield back.

Chairman DAVIDSON. I thank the ranking member.

Today, we welcome the testimony of Hon. Rae Davis Oliver—or Rae Oliver Davis, my apologies—Inspector General of the Department of Housing and Urban Development, and Hon. Brian M. Tomney, the Inspector General for the Federal Housing Finance Agency.

We thank each of you for taking time to be here today. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, each of your written statements will be made part of the record.

Mr. Davis, you are now recognized for five—Ms. Davis, my apologies. It does say Mr. here. Ms. Davis, my apologies. You are now recognized for 5 minutes for your oral remarks.

STATEMENT OF RAE OLIVER DAVIS, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Ms. OLIVER DAVIS. Thank you.

Good morning, Chairman Davidson, Ranking Member Cleaver, and members of the subcommittee. Thank you for inviting me to testify about oversight of the U.S. Department of Housing and Urban Development.

HUD plays a critical role in every American community, providing billions of dollars for rental assistance, preventing homelessness, disaster recovery programs, and economic development.

HUD also creates important affordable housing and home ownership opportunities by ensuring trillions of dollars of mortgage loans and creating liquidity for those loans through Ginnie Mae's mortgage-backed securities program.

Our country faces significant and complex challenges in the housing space today. Housing is more expensive now than ever. There is not enough affordable housing to meet the demands of American communities. Nearly all of the affordable housing stock that receives HUD funding is old and needs major repairs.

Economic conditions have slowed the pace of new construction and transactions that would leverage private investment to increase the affordable housing supply. Interest rates remain high and make mortgages less affordable. These conditions also create liquidity crunches for many of the independent mortgage banks that HUD relies on to service loans and provide payments to investors.

There is legitimate concern about the impact that an economic downturn could have on servicers' ability to operate and whether Ginnie Mae will have to take on the responsibility for servicing portfolios like it did in 2022 with the collapse of reverse mortgage funding.

Several aspects of these challenges are not within HUD or the Federal Government's control. My office's oversight is focused on the things that HUD can and should control.

We want to help HUD maximize the outcomes that its programs and funding generate and strengthen HUD's ability to prevent fraud, waste, and abuse that robs communities and families of the resources they need.

My testimony today will highlight key areas where HUD can improve the integrity and efficiency of its operations, as well as the effectiveness of its programs in producing for the families and communities it assists.

We have identified many meaningful HUD actions that can be taken, including over 30 open recommendations across its programs that we have labeled as priority recommendations.

For example, in its oversight of safety hazards in assisted housing, HUD needs to ensure that property inspections are performed within required timeframes and that complaints about health and safety risks in multi-family properties are resolved timely.

HUD also needs to take action to require property owners to document their determinations not to use lead-safe work practices when performing maintenance on properties that disturbs lead-based paint and enhance its process for monitoring how property owners correct emergency health and safety deficiencies identified during inspections.

HUD also needs to act immediately to better protect employees of HUD contractors from retaliation for reporting fraud, waste, and abuse on mismanagement that affect its programs.

Our office has identified that whistleblower protections extended to the employees of Federal contractors in 2013 by Congress are

not available for employees falling under thousands of long-term HUD contracts, HUD assistance contracts.

Many whistleblowers work at the same housing providers that HUD is challenged to oversee, and they deserve the fullest protection under the law when reporting matters, such as financial irregularities and specific and substantial dangers to public health and safety affecting low-income housing.

Our office has also recommended HUD to do more to enhance controls that prevent fraud before it ever occurs. HUD needs to take the basic steps of identifying how programs could be defrauded and taking actions to mitigate those risks, then testing how well those controls work and taking actions to make them even stronger.

HUD also needs to ensure that its over 40,000 contractors and grantee partners are held accountable for assisting in fraud detection and prevention.

Similarly, HUD is chronically challenged with understanding the extent to which proper payments are made in its two largest rental assistance programs. HUD has been unable to estimate the proper amount of improper payments in these programs for the past 7 years. Funds spent in these programs total more than \$45 billion in Fiscal Year 2023 alone. That is over two-thirds of HUD's expenditures.

Estimating the improper payments is the first step to finding why they occur and creating a plan to reduce them.

To conclude, I am proud of the hard work of my dedicated staff and the robust oversight that our teams provide to our stakeholders.

I am looking forward to working with this subcommittee in the future, and I welcome any questions that you may have.

[The prepared statement of Ms. Oliver Davis follows:]



**Testimony Before the U.S. House of Representatives,
House Financial Services Committee, Subcommittee on
Housing and Insurance**

Oversight Hearing – Housing Oversight: Testimony of the HUD
and FHFA Inspectors General



Testimony of the Honorable Rae Oliver Davis,
Inspector General,
U.S. Department of Housing and Urban Development
June 26, 2024





Testimony: HUD Inspector General Oliver Davis, June 26, 2024

Written Testimony of Inspector General Rae Oliver Davis, U.S. Department of Housing and Urban Development

Before:

The U.S. House of Representatives, Financial Services Committee,
Subcommittee on Housing and Insurance

Hearing Titled:

“Housing Oversight: Testimony of the HUD and FHFA Inspectors General”

Introduction

Chairman Davidson, Ranking Member Cleaver, and Members of the Subcommittee, thank you for the opportunity to testify today. The Office of Inspector General (HUD OIG) for the U.S. Department of Housing and Urban Development (HUD or the Department) strives to provide timely and relevant oversight that influences positive outcomes for HUD’s programs and operations. HUD OIG leverages a staff of over 510 auditors, evaluators, Special Agents, attorneys, data scientists, and professional staff to produce independent, objective oversight and to protect the integrity of HUD’s expansive programs. My testimony today highlights some of our most significant recent work, ongoing audits and evaluations, and outlines priority areas where HUD action is needed.

I will also discuss our important initiatives to protect the health and safety of low-income and vulnerable populations living in HUD-assisted housing. Notably, we have and will continue to dedicate more of our resources to oversight of dangerous threats to tenants’ health and safety and to work that improves living conditions. We have also increased oversight of PHA’s and landlords’ compliance with environmental safety laws and regulations.

My testimony will then turn to key management challenges that HUD faces, which directly tie to the areas on which HUD OIG focuses our oversight and investigations to improve the effectiveness and integrity of those programs.

Overview of HUD OIG’s Operations and Impact

To provide more comprehensive oversight over HUD’s critical programs and operations, over the past several years HUD OIG refocused our oversight teams to align with HUD program functions more directly. By doing so, HUD OIG provides strategic, targeted audits and evaluations over critical HUD programs, which result in actionable recommendations that identify a roadmap for HUD and its stakeholders to achieve program improvements.

Similarly, our investigations staff are regionally positioned and use a data-driven approach that helps focus our efforts on areas with the greatest potential risk exposure to HUD funds and beneficiaries. This



helps ensure that our investigative work improves accountability and acts as a deterrent to fraud, waste, and abuse.

This approach has produced significant results. Last fiscal year (FY), HUD OIG audits found almost \$1 billion in funds that could be put to better use, \$4.8 million in questioned costs, and resulted in \$86.7 million in collections from audits. Similarly, our investigations resulted in over \$63 million in restitution and judgments, with over \$14 million total recoveries and receivables ordered to HUD programs. Beyond monetary impact, our office's oversight has identified numerous ways that HUD and its partners can improve outcomes for HUD-assisted individuals and communities and has held bad actors accountable through impactful investigations that resulted in convictions, penalties, and exclusion from Federal programs.

Initiatives to Reduce Environmental and Public Health Hazards, and Sexual Misconduct in Housing

Last year, I announced that HUD OIG is prioritizing oversight work that promotes safe, affordable HUD-assisted housing by reducing environmental and public health hazards. We remain committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households and other vulnerable populations. My office continues to prioritize the following oversight objectives:

1. ensuring public housing agencies (PHA), landlords, contractors, and inspectors properly identify lead hazards and use safe work practices to reduce and prevent lead exposure and poisoning in HUD-assisted housing;
2. ensuring landlords fulfill their obligations to provide housing units that are decent, safe, and sanitary, and make necessary repairs to units in a timely and safe manner; and
3. combatting financial fraud schemes that exploit vulnerable populations who rely on HUD housing assistance, such as landlords who overcharge rent or housing fees.¹

Additionally, HUD OIG's Office of Investigation is proactively focusing on efforts to ensure HUD tenants are protected from sexual misconduct in housing.² Under this initiative we have prioritized trauma informed training for our staff, improved out hotline intake procedures, conducted extensive outreach, formed partnerships and developed case all aimed at combatting this unacceptable abuse of tenants and HUD programs. Working with HUD and the Department of Justice, we will continue seeking justice for victims through criminal and civil prosecution and penalties for those who sexually assault or harass HUD tenants. No one should have to face the threat of being sexually harassed or sexually assaulted by their housing provider to have a roof over their head.

¹ See HUD OIG Fraud Bulletin, "Landlord Overcharging Section 8 Tenant Fraud Scheme."

[https://www.hudoig.gov/sites/default/files/2022-](https://www.hudoig.gov/sites/default/files/2022-10/Landlord%20Overcharging%20Section%208%20Tenant%20Fraud%20Scheme.pdf)

[10/Landlord%20Overcharging%20Section%208%20Tenant%20Fraud%20Scheme.pdf](https://www.hudoig.gov/sites/default/files/2022-10/Landlord%20Overcharging%20Section%208%20Tenant%20Fraud%20Scheme.pdf)

² See HUD OIG Press Release, "Sexual Harassment in Housing is ILLEGAL. Fair Housing is your RIGHT."

<https://www.hudoig.gov/newsroom/video-library/sexual-harassment-housing-illegal-fair-housing-your-right>



These initiatives are yielding substantial results. We have uncovered schemes to overcharge and abuse vulnerable HUD-assisted tenants and are actively seeking criminal, civil, and administrative remedies against these bad actors. Our partnership with DOJ's Housing Civil Enforcement Section has brought two cases to settlement totaling \$5.23 million dollars on behalf of eighty victims. Since October 2022, HUD OIG's Hotline has received 253 complaints alleging sexual misconduct and our Office of Investigation has opened forty-six investigations. We will continue prioritizing this important work and are proud to partner with our law enforcement and prosecutorial colleagues throughout the country.

Impactful Investigations

[Property Owner Sentenced for Lying About Lead Hazards](#)

The United States District Court for the Western District of New York sentenced the former principal of Williamsville Property Holdings to 5 years of probation, 8 months home detention, and 600 hours of community service with Habitat for Humanity and ordered him to pay \$115,000 in restitution to the buyers of certain properties for making false statements on Lead-Based Paint Rider and Disclosure forms. Between December 2015 and May 2018, the defendant was aware of lead-based paint and lead-based paint hazards at a residence he owned. The defendant rented the property to lessees participating in the Housing Choice Voucher Program (HCVP) and provided them with a lead disclosure form that falsely affirmed that he "had no knowledge of lead-based paint and/or lead-based paint hazards in the housing." The individual later sold properties that he knew to have lead-based paint hazards and failed to properly disclose that information to the purchasers.

[40 Members of a Violent Gang Charged With Drug Trafficking and Firearms Violations in San Juan, Puerto Rico](#)

A federal grand jury in the District of Puerto Rico indicted 40 gang members with crimes spanning conspiracy to possess with the intent to distribute controlled substances, possession and distribution of controlled substances, and firearms violations. The indictment alleged that from 2015 to June 8, 2023, the drug trafficking organization distributed heroin, cocaine base, cocaine, marijuana, Fentanyl, Oxycodone, and Alprazolam near Public Housing Projects for significant financial gain and profit. The defendants used abandoned apartments in the Public Housing Projects to prepare the drugs for distribution and procured access to many vehicles to transport money, narcotics, and firearms.³

[Justice Department Obtains \\$4.5 Million Settlement from a New Jersey Landlord to Resolve Claims of Sexual Harassment of Tenants](#)

A landlord who owned hundreds of rental units in and around Elizabeth, New Jersey, agreed to pay \$4.5 million, including monetary damages and a civil penalty, to resolve a Fair Housing Act lawsuit concerning his sexual harassment of tenants and housing applicants for more than 15 years. This settlement is the

³ As the introductory phrase signifies, the description of the charges set forth herein constitute only allegations, and every fact described therein should be treated as an allegation.



largest monetary settlement the Justice Department has ever obtained in a case alleging sexual harassment in housing. The monetary damages awarded have been used to compensate numerous women and men who were sexually harassed by the landlord. The landlord is currently facing criminal prosecution, as well.

[New Mexico Landlords to Pay \\$42,000 to Resolve Alleged Tenant Abuses Arising from HUD's Section 8 Low-income Housing Program](#)

Two New Mexico landlords settled allegations that they violated the False Claims Act by charging low-income tenants more than the amount permitted under HUD's HCVP. Under the HCVP, the tenant's share of the rent is determined based upon ability to pay, and the subsidized amount is determined based upon market rental rates. This results in tenants securing decent housing and ensures that landlords realize full market value for their rental properties. One landlord overcharged a vulnerable low-income HCVP tenant and retained the excess payments despite the tenant's request for a refund from the landlord. The other landlord demanded excess rent payments from his tenant, who felt compelled to comply because of her difficulty finding safe, decent housing.

[Newark Landlords Agree to Pay \\$430,000 to Settle Allegations of Collecting Excess Rent in Sparrow Run](#)

Landlords that collectively owned more than 90 properties in Newark, Delaware, agreed to pay \$430,000 to resolve allegations that they violated the False Claims Act by charging a higher rent to their HCVP tenants than unassisted tenants in comparable housing units, as well as providing false information on forms to justify the inflated rents they sought to charge. As part of the settlement, the landlords were also required to reduce the rents they were charging certain current tenants.

[Justice Department Secures \\$400,000 in Sexual Harassment Lawsuit Against Connecticut Landlord](#)

A former HCVP landlord agreed to pay \$400,000 to settle a lawsuit that he violated the Fair Housing Act by sexually harassing female tenants and applicants of rental properties. As part of the settlement agreement, the landlord and his two co-defendant companies were required to pay \$350,000 to compensate individuals harmed by his harassment as well as a \$50,000 civil penalty. The landlord is also permanently enjoined from owning and managing residential rental properties in the future. The landlord has been incarcerated since 2017, following a [guilty plea to federal charges](#) of producing child pornography.

[Hampton Landlord Charged with Fraud, Threats, and Civil Rights Violations](#)

A landlord who owns more than sixty rental properties in Hampton and Newport News was charged with repeatedly harassing his tenants with racist slurs, threats to kill or injure, and retaliatory eviction actions. The alleged threats and racial harassment were often highly graphic and included references to slavery and mocking comments about the Black Lives Matter movement. In addition, the landlord allegedly engaged in physical assaults and other threatening behavior towards tenants, including on one occasion striking a tenant in the face with a shovel and on another occasion attacking a tenant with the blade of a chainsaw while it was off. The landlord orchestrated a scheme to defraud the government and his tenants. For example, the indictment alleges that, to obtain housing-assistance payments from HUD, the landlord repeatedly made false representations about the condition of his rental properties.



and whether he was receiving other payments that would be duplicative of federally funded rental assistance.⁴

[Justice Department Sues Ohio Landlord for Sexually Harassing Tenants](#)

A Section 8 landlord is alleged to have discriminated on the basis of sex in violation of the Fair Housing Act by sexually harassing female tenants and applicants since at least 2004. The complaint alleges that the landlord requested sex acts from female tenants and applicants, subjected female tenants to unwelcome sexual touching, made unwelcome sexual comments and advances to female tenants and their female guests, repeatedly drove by and entered female tenants' homes without their permission, demanded that female tenants engage in sex acts with him in order not to lose housing, and offered to reduce rent or excuse late or unpaid rent in exchange for sex acts. The lawsuit also alleges that the landlord-initiated evictions or threatened to evict female tenants who refused sexual advances. The lawsuit, which is the result of a joint investigative effort with HUD OIG and the Civil Rights Section of DOJ, seeks monetary damages to compensate persons harmed by the alleged harassment, a civil penalty to vindicate the public interest and a court order barring future discrimination.

HUD OIG Oversight Focuses on HUD's Top Management Challenges

To ensure comprehensive oversight of HUD's key functions and programs, our work addresses what we have determined to be the top management and performance challenges that the Department faces. Each challenge correlates to HUD's strategic plan and is informed by past HUD OIG oversight findings, the views of Department leadership, the work of our oversight partners, such as the U.S. Government Accountability Office, and input from key external stakeholders.

For FY 2024, we determined HUD's Top Management Challenges to be:

- Promoting Health and Safety in HUD-Assisted Housing
- Increasing Access to Affordable Housing
- Mitigating Counterparty Risks
- Grants Management
- Enhancing Oversight of Disaster Recovery
- Managing Fraud Risk and Improper Payments
- Improving Information Technology (IT) Modernization and Cybersecurity
- Managing Human Capital
- Increasing Effectiveness in Procurement

A common theme in our oversight findings has been that HUD does not have the capacity necessary to address the challenges it faces. HUD employees, program partners, and external stakeholders consistently describe HUD as having IT, human capital, and other support structures that are inadequate to address its ever-growing mission, program responsibilities, and expectations. Challenges, such as

⁴ As the introductory phrase signifies, the description of the charges set forth herein constitute only allegations, and every fact described therein should be treated as an allegation.



HUD's ability to securely collect, use, and analyze data, which is often maintained at the recipient or subrecipient level, continue to impede HUD's success.

HUD OIG has vast oversight responsibilities, as HUD implements its many programs through extensive networks of businesses, non-profit agencies, state and local governments, and other entities that operate HUD's programs. For example, over 500,000 landlords participate in HUD's rental assistance programs, which served over 4.5 million families in 2023. Roughly 19,000 entities do significant business with HUD and the Federal government and are Single Audit Act filers.⁵ HUD insures over 16,700 multifamily loans for over 14,600 property owners with a total unpaid balance on these loans of over \$163 billion. Between FY21-FY23, HUD processed over four million Federal Housing Administration (FHA) loan applications, excluding reverse mortgages. There is currently over \$1.31 trillion in outstanding balance in FHA loans, and over \$2.5 trillion in principal for all pooled loans guaranteed by Ginnie Mae. HUD's mortgage insurance programs rely on over 13,000 underwriters, 1,500 originators, 500 servicers, 33,000 appraisers, and 180,000 loan officers.

HUD's mission and footprint are expansive, which requires HUD OIG to focus our resources on the most significant risks and program outcomes. We execute a data-driven oversight strategy analyzing enterprise-wide risk at the HUD level, then examining primary recipients such as grantees or financial institutions and the subrecipients that HUD relies on to execute its programs. This approach allows HUD OIG to identify the most effective areas to target limited investigative resources, and to make meaningful findings and recommendations to improve how HUD conducts business.

Priority Open Recommendations

HUD OIG recently issued its second Priority Recommendations memorandum⁶ to focus the Department's, Congress', and the public's attention on recommendations that, if acted on by HUD, would have the greatest impact on helping HUD achieve its mission and address its top management challenges.

The report outlines important actions HUD can take to address recommendations related to promoting health and safety in HUD-assisted housing, managing fraud risk and improper payments, improving IT modernization and cybersecurity, protecting whistleblowers, and mitigating counterparty risk. Each priority open recommendation is an opportunity for HUD to take specific action to increase the integrity of its operations and programs. Priority open recommendations are further described within the brief examples below of HUD OIG's impactful oversight.

Management Alert: Protecting Whistleblowers

[Management Alert: HUD Should Take Additional Steps to Protect Contractor Employees Who Disclose Wrongdoing](#)

⁵ This includes entities that receive more than \$750,000 in federal funding annually and are subject to Single Audit Act requirements.

⁶ Available at: <https://www.hudoig.gov/reports-publications/memorandum/priority-open-recommendations-fiscal-year-2024>. Current recommendation statuses can be found on the HUD OIG Recommendation Dashboard: <https://www.hudoig.gov/open-recommendation/search>.



Employees of thousands of contractors who receive funds from HUD may not be protected against retaliation for blowing the whistle on wrongdoing. The gap in protections exists because the contracts pre-date July 1, 2013, the date on which the anti-retaliation law codified at 41 U.S.C. § 4712 (Section 4712) became effective, and HUD has not modified the contracts to include the statutory anti-retaliation provisions that would protect the employees. HUD OIG identified this problem following investigations of allegations of whistleblower retaliation against several employees working under long-term Housing Assistance Payments contracts. We believe that the same risk is present in many other HUD contracts.

Whistleblower protections in HUD contracts promote integrity in HUD's programs by ensuring that employees who work under those contracts are safeguarded from retaliation when they disclose wrongdoing, such as dangers to public health and safety. Uncertainty over whether whistleblower protections apply dissuades employees from reporting wrongdoing to HUD, Congress, and HUD OIG, potentially emboldens employers to retaliate.

In May 2023, HUD OIG issued a Management Alert, making five recommendations for action HUD should take, including seeking legislative action, to close the gaps in whistleblower protections involving its contracts. At this time, OIG has not reached an agreement with HUD about whether its planned corrective action addresses our recommendations. Three of the recommendations are Priority Open Recommendations:

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- HUD (a) identify all contracts related to its programs that pre-date July 1, 2013, and that have not yet been modified to include Section 4712 whistleblower protections; and (b) review all contracts entered into on or after July 1, 2013, to ensure they include a clause that requires contractors to comply with Section 4712.
 - HUD seek voluntary cooperation from program participants to proactively modify pre-2013 contracts for the purpose of including a clause requiring compliance with Section 4712.
 - HUD use best efforts to include a clause requiring compliance with Section 4712 at the time of major modifications to contracts with program participants with whom HUD is unable to gain voluntary cooperation.
-

Improper Payments & Fraud Risk

For the past 2 years, HUD OIG has highlighted that HUD's overall financial maturity continues to progress. This result is largely due to HUD's financial statements being presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles in fiscal years 2021, 2022, and 2023. However, the next major hurdles for HUD are to address improper payments and to mature its own fraud risk management capabilities.

HUD has long struggled to come into compliance with the Payment Integrity Information Act of 2019 (PIIA) and is unable to estimate improper payments in its largest rental housing assistance programs. Beyond the management alert noted below, several recent HUD OIG reports demonstrate HUD's



challenges in developing more robust improper payment controls, fraud risk assessments, and fraud risk frameworks in its programs. HUD also faces challenges integrating accountability measures into its programs, such as strong certifications throughout a program's life cycle, and adopting leading practices in preventing fraud, such as antifraud training for program participants, and verifying self-reported information.

HUD OIG continues to assess HUD's programs for systemic weaknesses in improper payments, fraud risk controls and other gaps that could negatively impact HUD's programs.

[Management Alert: Action Is Needed From HUD Leadership To Resolve Systemic Challenges With Improper Payments⁷](#)

The Management Alert highlights that the Department will once again be unable to estimate improper payments for the Office of Public and Indian Housing's Tenant-Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program for fiscal year 2023. These are the two largest program expenditures in HUD's portfolio, totaling \$45.3 billion in FY23, or 67.5 percent of HUD's total expenditures.

This marks the seventh consecutive year that HUD will be unable to report improper payment estimates for these programs and the 11th consecutive year that HUD will not be in compliance with improper payment laws. Even more troubling, we recently learned that the Office of the Chief Financial Officer (OCFO) believes it will not be able to provide estimates of improper payments in these programs next year either, and OCFO has informed the Office of Management and Budget (OMB) that it may not be able to make these estimates until FY 2027, dependent on funding.

If left unaddressed until FY 2027, hundreds of billions of dollars in HUD rental assistance payments will continue to be at heightened risk of waste, mismanagement, and fraud. Action is needed immediately from HUD leadership to resolve its systemic challenges in preventing, identifying, and remediating improper payments and better protect taxpayer-funded expenditures made through these programs. The lack of proper planning and coordination from leadership in HUD's program and support offices prevents HUD from addressing the root causes behind the failure to comply with improper payment laws.

We made one Priority Open Recommendation in this report, that the Deputy Secretary:

⁷ HUD OIG subsequently completed our annual audit of HUD's compliance with the Payment Integrity and Information Act of 2019. That audit discusses HUD's actions following OIG's Management Alert. HUD's leadership responded to the management alert with a joint commitment to work towards a plan to overcome these challenges. However, HUD did not provide details about the steps it would take to meet its goal of producing an estimate for the PBRA program in 2024, or when it will be able to produce an estimate for the PIH-TBRA program. The audit is available at: <https://www.hudoint.gov/newsroom/press-release/hud-oig-audit-finds-hud-did-not-comply-improper-payment-law?indexRefer=/news-congressional/press-releases>.



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- Develop and execute a detailed plan and timeline for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with Federal law and OMB guidance.

Improvements are Needed in HUD's Fraud Risk Management Program

We audited the maturity of HUD's fraud risk management program at the enterprise and program-office levels, including control activities to prevent, detect, and respond to fraud. We found that in all four phases of HUD's fraud risk management program was in the early stages of development, or at an "ad hoc" maturity level.⁸ HUD's program is still in its infancy because HUD had not previously dedicated sufficient resources to lead and implement fraud risk management activities. Although HUD has recently taken steps to mature its program, HUD needs to commit resources to enhancing antifraud controls and promoting a culture of fraud risk management.

Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk. HUD OIG recommended HUD take several actions to assess and improve the maturity of HUD's fraud risk management program, as well develop policies, procedures, and strategies for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools. We also recommend that the Chief Financial Officer determine and seek to fulfill an appropriate level of dedicated staff resources to administer HUD's enterprise and fraud risk management programs effectively and increase fraud risk awareness and strengthen antifraud controls in HUD's program offices.

This report includes a Priority Open Recommendation that HUD's Chief Risk Officer:

- Perform a complete agency-wide fraud risk assessment (which incorporates the fraud risk assessments performed at the program level) and use the results to develop and implement an agency-wide plan to move HUD's fraud risk management program out of the "ad hoc" phase.

The Puerto Rico Department of Housing Should Enhance Its Fraud Risk Management Practices

We conducted an audit of the Puerto Rico Department of Housing's (PRDOH) fraud risk management practices to assess the maturity of its antifraud efforts for preventing, detecting, and responding to fraud when administering programs funded by HUD grants addressing 2017 disasters. This audit determined that PRDOH's fraud risk management processes to mitigate fraud risks either did not exist or were reactionary, which resulted in the lowest desired maturity goal state, "ad hoc", for organizations' antifraud initiatives. Because PRDOH does not proactively manage fraud risk and its fraud risk management program is at the lowest state of maturity, it may have missed opportunities to

⁸ The Antifraud Playbook established by the Chief Financial Officers Council and the U.S. Department of the Treasury assess maturity of an agency's fraud risk management program in four phases: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action.



strengthen controls and eliminate fraud vulnerabilities, leaving more than \$20 billion in HUD disaster recovery and mitigation funds at increased risk of fraud. Implementing best practices and maturing PRDOH's fraud risk management program will improve HUD and Puerto Rico's ability to prevent and detect fraud and effectively utilize federal funds to support long-term disaster recovery and mitigation needs. HUD OIG made several recommendations, including that HUD instruct PRDOH to implement a process to regularly conduct fraud risk assessments and determine a fraud risk profile. HUD OIG also recommended that HUD assess whether other Community Development Block Grant Disaster Recovery (CDBG-DR) grantees have mature fraud risk management programs and to work with grantees to take further steps to mitigate fraud risks.

This report includes several recommendations for HUD, including that it assess whether grantees have mature fraud risk management programs within the disaster recovery and mitigation programs, as well as determine the fraud risk exposure in HUD's disaster recovery and mitigation programs and work with grantees to implement appropriate fraud mitigation activities.

Impactful Investigations

70 Current And Former NYCHA Employees Charged With Bribery And Extortion Offenses

In the largest number of federal bribery charges on a single day in DOJ history, 70 current and former employees of the New York City Housing Authority (NYCHA) were charged with bribery and extortion. The complaints allege that these individuals used their positions of public trust and responsibility to solicit and obtain money in exchange for awarding no-bid contracts.

According to the allegations in the complaints and publicly filed documents in these cases,⁹ the defendants, all of whom were NYCHA employees during the time of the relevant conduct, demanded and received cash in exchange for NYCHA contracts by either requiring contractors to pay up front in order to be awarded the contracts or requiring payment after the contractor finished the work and needed a NYCHA employee to sign off on the completed job so the contractor could receive payment from NYCHA. As alleged, the defendants typically demanded approximately 10% to 20% of the contract value—between \$500 and \$2,000 depending on the size of the contract—but some defendants demanded even higher amounts. In total, these defendants demanded over \$2 million in corrupt payments from contractors in exchange for awarding over \$13 million worth of no-bid contracts.

[Former Puerto Rico Public Housing Contracting Company and Executives Sentenced for Corruption and Financial Misconduct](#)

⁹ Available at: https://www.justice.gov/usao-sdny/pr/70-current-and-former-nycha-employees-charged-bribery-and-extortion-offenses#_ftn1. As the introductory phrase of the DOJ press release signifies, the entirety of the text of the Complaints and the description of the Complaints set forth therein constitute only allegations, and every fact described therein should be treated as an allegation.



The United States District Court for the District of Puerto Rico sentenced two executives of a company providing services to the Puerto Rico Public Housing Administration (PRPHA) to prison terms for knowingly and intentionally stealing money from HUD federal assistance programs from 2014 to August 2022. The two executives stole approximately \$3.7 million. The PRPHA contracted with the company the two executives operated to be a management agent for various public housing projects. Despite their fiduciary obligations, the two executives used their positions to operate a scheme designed to circumvent certain prohibitions on conflicts of interest by creating sham companies which purported to provide services to the public housing projects served by the management agent company. The sham companies never actually rendered services to the public housing projects.

[Former Public Housing Authority Bookkeeper Sentenced for Theft of over \\$200,000](#)

A federal court sentenced the former bookkeeper for the Albert Lea (Minnesota) Housing and Redevelopment Authority (HRA) to 1 year and 1 day in prison, 3 years' supervised release, and ordered her to pay restitution in the amount of \$213,217 for her role in committing theft. For over eight years, the bookkeeper stole funds from tenants by embezzling their HRA rent payments by pocketing cash payments and altering the payee information on payments made by check and money order. She then manipulated the HRA's computer system to conceal the money she stole, avoiding detection and prolonging her fraud scheme.

Ensuring Access to and Availability of Affordable Housing

HUD continues to experience challenges in efficiently and effectively overseeing its rental assistance programs. HUD and its local partners have difficulty attracting new business partners, such as landlords and property owners, to participate in its tenant-based rental assistance programs. HUD is also challenged with preserving its aging housing stock to provide quality affordable housing for individuals and families, the deterioration of which exacerbates the shortage of affordable housing. To help HUD address this challenge, HUD OIG has dedicated considerable resources toward assisting HUD and its partners in improving the delivery of these critical programs.

Below is a snapshot of HUD OIG's recent, impactful oversight work related to ensuring access to and availability of affordable housing.

[Opportunities Exist To Improve HUD's FHA Resource Center's Routing of Housing Discrimination Inquiries](#)

HUD OIG assessed whether the FHA Resource Center appropriately rerouted inquiries related to housing discrimination, including discrimination in appraisals, to the Office of Fair Housing and Equal Opportunity (FHEO) in accordance with its standard operating procedures. We found the FHA Resource Center did not consistently do so. Specifically, fourteen of 68 sampled housing discrimination inquiries and 3 of 10 HUD OIG test calls relating to housing appraisal discrimination were not routed to FHEO as required. We found that the FHA Resource Center lacked clear guidance on how to handle discrimination inquiries when the inquiries included multiple concerns, such as a customer alleging discrimination while also complaining about living conditions in public housing. HUD OIG made two



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recommendations that the Office of Single Family Housing has already resolved. It did so by updating internal guidance to ensure consistency among customer service representatives in rerouting these complaints to FHEO and providing additional training to its staff on housing discrimination.

[HUD Could Improve Its Process for Evaluating the Performance of Public Housing Agencies' Housing Choice Voucher Programs](#)

HUD uses the Section Eight Management Assessment Program (SEMAP) to remotely evaluate the performance of PHAs' Housing Choice Voucher (HCV) Programs. We determined that the program needed enhancements to accurately measure PHA performance because SEMAP uses performance indicators that are based on PHAs' self-certifications and self-reported data, which may not have accurately represented the performance of PHAs' HCV programs. We also noted that HUD's process for verifying the information PHAs use for SEMAP reporting did not capture the performance of all PHAs' HCV Programs. This weakness creates a gap in HUD's ability to identify PHAs' HCV Programs that may have needed improvement. We recommended HUD (1) enhance SEMAP or develop a new performance measurement process that would identify PHAs with underperforming HCV Programs and (2) provide training and guidance to HUD staff to enable more effective use of the measurement processes.

[Opportunities Exist To Enhance Oversight of the Foster Youth to Independence Initiative To Improve Program Effectiveness](#)

HUD OIG conducted an audit of HUD's Office of Public Housing Voucher Programs' oversight of the Foster Youth to Independence Initiative (FYI) to determine its effectiveness. This audit determined that opportunities exist to enhance oversight of the FYI to improve program effectiveness. HUD did not implement strategies or provide guidance to maximize voucher utilization and did not have the assurance that youths were informed of supportive services or that the services were available for the duration of their participation. In addition, HUD did not include the FYI in its annual risk assessment and did not have an FYI program-specific risk assessment or monitoring policies and procedures. It also did not establish specific and measurable objectives for the FYI or collect data that would allow it to assess the program's overall effectiveness. HUD OIG made recommendations to help PIH to improve voucher utilization, including through improved coordination between PHAs and public child welfare agencies. HUD OIG also made recommendations to improved accountability measures like requiring PHAs to document that they have informed FYI participants at program entry of their eligibility for supportive services for the duration of the program, and improve monitoring of program partners, and regularly assess the effectiveness of the program.

[The Kentucky Commission on Human Rights Has Opportunities To Improve Its Fair Housing Complaint Intake Process](#)

After reviewing its intake process, we were unable to determine the extent to which the Kentucky Commission on Human Rights processed fair housing inquiries within 30 days due to a lack of supporting documentation. Further, the Commission could not provide evidence that fair housing inquiries were properly closed. The Commission lacked clarity about which inquiries should be recorded in the HUD Enforcement Management System, or how to support closure decisions. These steps are key to assuring complaints are properly processed and inquiries from complainants are closed in a timely manner. If



complainants' alleged discrimination is not addressed properly and in a timely manner, the Commission may not help to stop ongoing discrimination, hold those responsible for their actions, and deter future discrimination. HUD OIG made five recommendations, which include requiring the Commission to update policies and procedures and develop an internal agency intake training guide for all agency housing staff.

Ensuring Assisted Housing Is Habitable and Hazard-Free

HUD is required to ensure that its assisted properties are decent, safe, sanitary, and in good repair. Properties participating in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances, when such hazards could affect the health and safety of occupants or conflict with HUD's intended utilization of the property.¹⁰ Our Top Management Challenges report discusses HUD's difficulty in addressing risks associated with lead hazards, radon hazards, physical conditions of HUD-assisted properties, and the role of inspections in identifying and remedying poor living conditions. While HUD has made progress in its efforts toward eliminating hazards in its assisted properties, several safety and health issues remain to be addressed.

HUD OIG is prioritizing oversight work that helps reduce environmental and public health hazards in HUD-assisted housing. We are committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households and vulnerable populations and will use every tool available to combat environmental crime and injustice in housing.

[HUD Lacked Adequate Oversight of Multifamily Housing Properties with Failing REAC Scores or Life-Threatening Deficiencies](#)

HUD requires property owners to immediately remedy life-threatening exigent health and safety deficiencies, including fire safety smoke detector deficiencies, identified during Real Estate Assessment Center (REAC) inspections. Property owners must also provide a certification that they addressed the violation within three business days of the date of the REAC inspection. In our report we identified multiple areas where HUD needs to improve its oversight of physical conditions in multifamily housing properties. Specifically, we found that for 45 percent of the sampled properties reviewed, HUD did not issue notices of violation and default to owners for failed inspections within 15-days. This was caused, in part, because HUD had insufficient procedures and controls to ensure that it timely and consistently issued notices of violation and default to owners. This delayed the start of the cure period for owners to correct identified deficiencies and increased the risk that residents were subjected to inadequate living conditions for a longer period. Further, HUD staff did not consistently collect adequate documentation from property owners to ensure that the owners complied with HUD's requirement to maintain housing in a decent, safe, and sanitary condition. Lastly, HUD did not always provide timely reports to Congress that contained accurate information about the physical condition of assisted multifamily housing properties that received a failing REAC inspection score.

¹⁰ 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)



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We recommended that Multifamily develop and implement adequate procedures and controls to ensure that (1) staff issues timely notices of violation and default and that the Office of Multifamily Asset Management and Portfolio Oversight is made aware when notices are issued late so it can take action, as appropriate to ensure future notices are issued in a timely manner. We also recommended that Multifamily include more specific language regarding owner surveys in future notices of violation and default; improve record retention and retrievability; ensure that appropriate staff approve extensions to cure periods; and assess and streamline processes to ensure that reports are accurate and submitted to Congress on time.

Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner

Our audit found REAC did not consistently ensure that public housing properties were inspected within required timeframes. REAC developed its Big Inspection Plan to inspect all National Standards for the Physical Inspection of Real Estate (NSPIRE) demonstration and non-NSPIRE public housing and multifamily properties by March 31, 2023, and we found HUD was challenged in prioritizing and completing inspections under the plan. REAC also experienced delays in inspecting public housing properties approved to participate under the NSPIRE demonstration.

Our audit found that HUD can improve its procedures and controls, including the coordination of the procurement for inspection services, to ensure that public housing properties are inspected in a timely manner. Making such improvements will better position PIH to know whether the physical conditions in public housing properties are decent, safe, and sanitary. These improvements could also result in Public Housing Assessment System' scores better reflecting the current conditions of the properties.

The audit resulted in a Priority Open Recommendation that:

- HUD implement adequate policies, procedures, and controls to ensure that public housing properties will be inspected within required timeframes.

HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments

We audited HUD's oversight of the physical condition of public housing developments, including whether HUD had adequate oversight of PHAs' (1) corrective actions in response to periodic REAC inspections and (2) annual self-inspections to ensure that units were maintained in decent, safe, and sanitary condition.

HUD field offices were inconsistent in overseeing whether PHAs corrected life-threatening deficiencies identified during REAC inspections, and HUD did not track PHAs' corrections of non-life-threatening health and safety deficiencies identified during REAC inspections. HUD lacked a standardized policy or a nationwide protocol to guide its field offices' oversight of PHAs to ensure that all health and safety deficiencies identified during a REAC inspection were corrected. Further, HUD was inconsistent in how it verified PHAs correction of deficiencies, and it lacked assurance that PHAs correctly rectified life-threatening and non-life-threatening deficiencies.



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In addition to the REAC inspection, HUD requires PHAs to perform routine self-inspections of public housing properties, including a visual assessment of the property to look for all deficiencies, and to determine the maintenance and modernization needs of the properties. HUD staff had varying interpretations of its requirements regarding the number of public housing units PHAs should self-inspect annually. Further, HUD's field office staff generally did not monitor PHAs for compliance with HUD's requirements for self-inspections. These conditions occurred because HUD's guidance was not clear regarding (1) the number of units PHAs should inspect annually and (2) how its field office staff should monitor PHAs to ensure that self-inspections of public housing units were conducted.

If HUD implements a nationwide protocol for monitoring and tracking PHAs' efforts to address inspection results, it could have greater assurance that tenants who reside in public housing are living in units that are decent, safe, and sanitary. Accordingly, HUD OIG designated four of the recommendations from this report as Priority Open Recommendations. Two were closed in March 2024, and the remaining two Priority Open Recommendations are that HUD should develop and implement:

- a nationwide protocol for field offices, describing how PHA self-inspections should be reviewed, based on REAC's determination of the number and frequency of PHA self-inspections.
- training for field offices that addresses reviewing or following up with PHAs about the correction of life-threatening and non-life-threatening deficiencies and how:
 - to review physical inspection reports to effectively ensure that PHAs correct physical deficiencies,
 - PHAs should address or correct each type of deficiency observed in the REAC physical inspection report, and
 - to use PASS or any future tracking system.

Management Alert: Action Needed to Ensure That Assisted Property Owners Comply with the Lead Safe Housing Rule

While conducting an ongoing audit of the Philadelphia Housing Authority's (Authority) management of lead-based paint hazards in its public housing units, we identified a significant gap in HUD's program requirements related to safe work practices. The Authority had determined a substantial percentage of maintenance and hazard reduction work performed on surfaces with lead-based paint in its public housing units was "de minimis," which exempted the work from HUD's rules requiring safe work practices. However, HUD does not require assisted property owners like the Authority and other PHAs to maintain evidence supporting that the work was minor. This lack of documentation impedes HUD's ability to conduct meaningful oversight of property owners' compliance with HUD's requirements for safe work practices. Moreover, the practice limits HUD's and HUD OIG's ability to verify that the de minimis exemption is being properly applied.

To mitigate the risk of applying the exemption too broadly and increasing the potential for residents and maintenance staff to be exposed to lead-based paint hazards, we made a Priority Open Recommendation that HUD:

- should require assisted property owners, including PHAs, to maintain adequate documentation to support their determinations that maintenance and hazard reduction activities that disturb surfaces with lead-based paint qualify for the de minimis exemption from the lead-safe work practices under the Lead Safe Housing Rule.

[Improvements are Needed to HUD's Processes for Monitoring Elevated Blood Lead Levels and Lead-Based Paint Hazards in Public Housing](#)

Our evaluation found that HUD did not align its EBL value to the Centers for Disease Control and Prevention's (CDC) blood lead reference value (BLRV) for children under the age of six. As of August 2022, HUD was using the EBL value of 5 micrograms of lead per deciliter of blood (µg/dL), despite CDC lowering the BLRV to 3.5 µg/dL in October 2021. By aligning EBL processes with CDC's BLRV, HUD can help to ensure that cases of children with EBLs between 3.5 µg/dL and 4.9 µg/dL are reported and monitored. The evaluation also found ways HUD could improve the data fields of HUD's EBL tracker to monitor cases of children with identified EBLs residing in public housing, including facilitating access to historical EBL cases, and the number of children living in a housing unit, or whether a specific unit, building, or development previously had an EBL case. Additionally, when we compared the percentage of public housing development buildings constructed before 1978 to a snapshot of the EBL tracker we found that New York and Pennsylvania accounted for 94.1 percent of tracked EBLs for children living in public housing with an EBL resulting from a confirmed lead-based paint hazard, despite other states' having the same or more pre-1978 public housing development buildings.

This report includes two Priority Open Recommendations, notably that:

- The Office of Lead Hazard Control and Healthy Homes should update its regulations, policies, and procedures following the regulatory process required by the amended Lead Safe Housing Rule, in consideration of CDC's lowered BLRV of 3.5 µg/dL.
- PIH in coordination with other HUD offices as necessary, research and address potential causes of the variance in the number of EBL cases among States on the EBL tracker and identify solutions that are within HUD's control.

[HUD Lacked Adequate Oversight of Lead-Based Paint Hazard Remediation in Public Housing](#)

HUD established procedures in the Lead Safe Housing Rule (LSHR) in 1999 to eliminate lead-based paint hazards, as far as practicable, in public housing. However, it did not have a plan to manage lead-based



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paint and lead-based paint hazards in public housing. Additionally, HUD generally did not monitor whether PHAs had implemented lead-based paint hazard reduction and documented the activities at their public housing developments. HUD relied on PHAs to implement their own methods to achieve lead-safe housing, which should have included implementing lead-based paint hazard reduction. Further, instead of monitoring PHAs for compliance with the lead-based paint hazard reduction procedures in the LSHR, HUD relied on PHAs' annual certifications of compliance. Without a plan to manage lead-based paint and lead-based paint hazards in public housing and ensure that PHAs implemented lead-based paint hazard reduction, HUD lacked assurance that (1) families with children under 6 years of age residing in public housing were not exposed to lead-based paint hazards and, thus, protected from lead exposure and (2) its procedures for eliminating lead-based paint hazards in public housing were effective.

Without determining the extent of lead-based paint hazards in public housing, HUD cannot effectively assess its progress in making assisted units lead safe or effectively communicate its funding needs to Congress to address lead-based paint in the public housing program. Accordingly, we determined that one of the six recommendations from this audit was a Priority Open Recommendation, that:

- HUD's Real Estate Assessment Center, in coordination with the Office of Field Operations, determine the number of developments and associated units that contain lead-based paint and lead-based paint hazards.

[The Philadelphia Housing Authority Needs To Improve Oversight Of Lead-Based Paint In Its Public Housing](#)

In the first of a series of audits¹¹ examining PHAs across the country, we assessed the Philadelphia Housing Authority's management of lead-based paint in its public housing program. We found the Authority did not always perform lead-based paint visual assessments within the required timeframe and mitigate lead-based paint hazards in a timely manner. The Authority needs to improve its processes for maintaining lead-based paint documentation and providing accurate lead-based paint disclosures to tenants. It also did not ensure that its contractors provided lead-based paint inspection and risk assessment reports that met HUD's requirements.

We recommended that HUD require the Authority to establish procedures and controls to ensure that lead-based paint visual assessments and hazard reduction work are performed within the required timeframes, and that all identified hazards are abated or treated with interim controls. We also recommended that HUD require the Authority to better maintain lead-based paint documentation; find historical lead-based paint documentation; and implement adequate procedures and controls to ensure that accurate lead disclosures are provided to current and prospective tenants and that contracted inspectors' deliverables comply with applicable requirements. In addition, we recommended that HUD

¹¹ As part of HUD OIG's environmental justice initiative that prioritizes oversight work that promotes safe, affordable housing by reducing environmental and public health hazards in HUD housing.



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provide training to the Authority's staff involved with managing lead-based paint, technical assistance to the Authority in developing and implementing new procedures and controls, and assess the quality of lead-based paint inspections and risk assessments performed by the Authority's contractors.

Impactful Investigations

[Apex Waukegan LLC and Integra Affordable Management LLC Fined for Breach of Contract](#)

Apex Waukegan LLC (Apex), a multifamily housing landlord receiving rental assistance subsidies from the HUD, and Integra Affordable Management LLC (Integra), Apex's affiliated management agent, were ordered to pay \$1,258,671 in civil money penalties for breaching their Housing Assistance Payment Contract by knowingly failing to maintain housing units in a decent, safe, and sanitary manner.

[Richmond Contractor Sentenced to over 1 Year for Violating Federal Lead Paint Laws and Obstructing Justice](#)

A U.S. District Court sentenced a contractor to 16 months in federal prison. The contractor operated a company, Aluminum Brothers Home Improvements, which received HUD grant money to mitigate lead paint hazards in older low-to-middle income homes. The contractor admitted that he and other workers he supervised failed to follow lead safety laws while conducting multiple HUD-funded renovations in Indiana. As a result, lead-based paint chips were scattered throughout the properties and were not cleaned up timely or properly as work was being conducted. One of the residences was inhabited by a child with elevated blood lead levels, which had prompted the renovation work at that property to begin with.

Addressing Counterparty Risk/ Protecting HUD's Insurance Funds

FHA and Ginnie Mae deliver access to rental and homeownership opportunities to millions of Americans through its mortgage insurance and housing finance programs by offering reduced risk to lenders, servicers, and investors, also referred to as counterparties. A key challenge for FHA and Ginnie Mae in delivering these important services is identifying and mitigating risks related to its counterparties to protect HUD's insurance funds that are ultimately backed by taxpayer funds.

To address counterparty risk in FHA programs and protect HUD's Insurance Funds, HUD OIG's oversight involves (1) preventing risk through early detection, (2) strengthening controls around origination, and (3) ensuring lenders service loans correctly to mitigate losses to HUD's insurance fund. With respect to Ginnie Mae, our audits are targeting areas of risk to Ginnie Mae's securitization platform, focusing on governance, and ways in which Ginnie Mae can mitigate risks and increase the efficiency of its operations. Although Ginnie Mae has enhanced its counterparty risk management, nonbanks comprised over 89% of Ginnie Mae's total issuances. Ginnie Mae securities are highly concentrated in its top issuers, most of which are nonbanks, and HUD OIG remains focused on economic conditions that present unique risk to such entities.



Select recent oversight includes:

[HUD Can Improve Its Loan Purchaser Qualification Vetting To Better Achieve Its Mission Objectives](#)

HUD OIG audited the FHA, Office of Asset Sales' HUD-Held Vacant Loan Sales (HVLS) program. The audit objective was to assess the extent to which HUD achieved its mission objectives for a 2022 vacant loan sale to promote sales first to mission-driven nonprofit organizations and units of local government and to encourage mission outcomes, including increased affordable housing supply, expanded opportunities for home ownership, and revitalized communities. While performing the audit, we focused primarily on how the qualification process advanced the mission objectives. We noted deficiencies in 52 of 53 HUD-approved applications within the reviewed vacant loan sale. These deficiencies included potentially undisclosed principals and incomplete organizational charts within the purchasers' applications. The qualification documents and HUD's contract are critical because HUD uses them to make sure purchasers comply with program requirements. HUD risks not achieving its mission objectives to promote sales first to mission-driven entities or to encourage mission outcomes by allowing purchasers that submitted deficient applications to purchase distressed FHA loans.

OIG made three recommendations to HUD to improve the application review process to prevent incomplete applications, ensure applications are supported by written analysis, improve verifications to prevent participation of restricted entities, and improve the review of and updates to program controls before future sales.

[Servicers Generally Did Not Meet HUD Requirements When Providing Loss Mitigation Assistance to Borrowers With Delinquent FHA-Insured Loans¹²](#)

We audited loan servicers' compliance with FHA requirements for providing loss mitigation assistance to borrowers after their COVID-19 forbearance ended. We initiated the audit based on the large number of borrowers exiting forbearance, because the loss mitigation programs available to these borrowers were new and created a risk for both borrowers and the FHA insurance fund when servicers do not properly provide loss mitigation.

We found that servicers did not provide proper loss mitigation assistance to approximately two-thirds of delinquent borrowers after their COVID-19 forbearance ended. Based on a statistical sample drawn from 231,362 FHA-insured forward loans totaling \$41 billion, servicers did not meet HUD requirements for providing loss mitigation assistance to borrowers of 155,297 FHA-insured loans. Nearly half of the borrowers did not receive the correct loss mitigation assistance. These borrowers did not receive the loss mitigation option for which they were eligible, had their loss mitigation option not calculated properly, or received a loss mitigation option that did not reinstate arrearages, which refers to any amount needed to bring the borrower current. Approximately one-quarter of the borrowers received the correct loss mitigation option, but servicers did not follow COVID-19 loss mitigation guidance to help borrowers with payments that were missed during forbearance.

¹² HUD OIG concurrently performed an audit of a single servicer provided loss mitigation for borrowers coming out of COVID-19 forbearance. See HUD OIG audit report: "[Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation to Borrowers of Delinquent FHA-Insured Loans](#)".



Among other actions, we recommend that HUD (1) review the sampled loans for which borrowers did not receive appropriate loss mitigation options to ensure that the borrowers are remedied by the servicers, (2) engage with the servicers in our sample to determine reasons for noncompliance and develop a plan to mitigate it going forward, and (3) design and implement a data-driven methodology to determine the appropriate mix of origination and servicing lender monitoring and desk reviews.

[HUD Can Improve Oversight of Its Temporary Endorsement Policy for Loans in COVID-19 Forbearance](#)

HUD OIG conducted an audit of HUD's temporary policy for endorsement of loans COVID-19 forbearance activity to determine (1) whether HUD's temporary endorsement policy related to COVID-19 forbearance activity was properly followed by lenders, (2) whether HUD monitored and enforced indemnification agreements for loans that were subject to the temporary policy, and (3) HUD's reasons for ending the policy during the pandemic and its plans to evaluate and use such policies in the future. The audit found that HUD did not ensure that lenders consistently followed policy requirements or that indemnification agreement data and records related to the policy were complete and accurate.

HUD OIG made several recommendations to HUD to resolve these findings and protect the FHA insurance fund from the risks identified.

[FHA Borrowers Did Not Always Properly Receive COVID-19 Forbearances From Their Loan Servicers](#)

Our audit found borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. Based on a statistical sample, at least one-third of the nearly 335,000 borrowers who were delinquent on their FHA-insured loans and not on forbearance in November 2020, were either not informed or misinformed about the COVID-19 forbearance. As a result, any of these borrowers experiencing hardship due to COVID-19 did not benefit from the COVID-19 forbearance. Additionally, servicers did not always properly administer the COVID-19 forbearance. Based on a statistical sample, they improperly administered the forbearance for at least one-sixth of the nearly 815,000 borrowers on forbearance plans in November 2020, with the most common errors being unnecessary document requirements, improper periods for forbearance, and credit reporting. Servicers also performed excessive communication and collection efforts for borrowers who were already in forbearance. As a result, these borrowers experienced additional burdens from improperly administered forbearance.

[Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers](#)

HUD OIG conducted an audit of Ginnie Mae's guidance and process for managing troubled users to assess Ginnie Mae's policy and procedures for rapid relocation extinguishments and assess Ginnie Mae's implementation of a previous HUD OIG recommendation to develop and implement controls to identify the total impact of a large or multiple-user default (the maximum size default Ginnie Mae could adequately execute) and individual users' ability to adapt to changing market conditions. This audit determined that Ginnie Mae's guidance and process for troubled issuers contained gaps.¹³

¹³ In February and May 2024, Ginnie Mae closed all four Priority Open Recommendations from this report by issuing guidance (1) defining its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation; (2) addressing what type of information Ginnie Mae may disclose and how it will handle protected information before extinguishment; (3) outlining how Ginnie Mae will determine



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Impactful Investigations

[Movement Mortgage to Pay \\$23.7 Million to Resolve Allegations It Caused the Submission of False Claims to Government Mortgage Programs](#)

Movement Mortgage, LLC, agreed to pay the United States \$23.75 million to resolve allegations that it violated the False Claims Act by failing to comply with material program requirements when it originated and underwrote mortgages insured by FHA or guaranteed by the Department of Veterans Affairs (VA). The settlement resolved allegations that Movement Mortgage failed to comply with material program rules that require lenders to maintain quality control programs to prevent and correct underwriting deficiencies, self-report any materially deficient loans that they identify, and ensure that the underwriting process is free from conflicts of interest. Movement Mortgage admitted that it certified for FHA mortgage insurance and VA home loan guarantees a material percentage of loans that did not meet applicable requirements and, therefore, were not eligible under those programs, despite inaccurately representing to HUD and the VA that such loans complied with applicable program requirements. Movement Mortgage further admitted that it failed to adhere to HUD and the VA's applicable self-reporting requirements.

[Salem Man Sentenced to Four Years in Prison for Decade-Long Mortgage Fraud Scheme](#)

A Massachusetts real estate developer was sentenced to four years in prison for his involvement with a decade-long mortgage fraud scheme. He and his co-defendants caused false information about borrowers' employment, income, assets, and intent to occupy the property to be submitted to banks and other financial institutions on behalf of borrowers recruited to purchase local properties. Since the borrowers did not have the financial ability to repay the loans, they defaulted on loan payments involving 19 of 21 properties involved in the scheme, resulting in foreclosures and losses to the lenders. Additionally, the defendant sought to obstruct the investigation by encouraging his co-defendants to make false statements and create false documents to make the transactions appear legitimate.

[California Mortgage Lender Agrees to Pay More Than \\$1 Million to Resolve Fraud Allegations](#)

A mortgage lender based in Brea, California agreed to pay \$1,037,145 to resolve allegations that it improperly and fraudulently originated government-backed mortgage loans insured by FHA. The settlement resolves allegations that between December 2011 and March 2019, the mortgage lender knowingly underwrote certain FHA mortgages and approved for insurance certain mortgages that did not meet FHA requirements or qualify for insurance, resulting in losses to the United States when the borrowers defaulted on those mortgages. The settlement further resolves allegations that the mortgage lender knowingly failed to perform quality control reviews that it was required to perform.

the portfolio value and price before sale; and (4) defining how Ginnie Mae intends to identify and evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing the purchase and sale agreements.



Grants Management & Disaster Recovery and Mitigation

HUD's grant programs are vast, varied, and are often the largest source of flexible grant funding available to communities for broad economic and development activities. HUD must effectively oversee and manage over \$100 billion dollars in grant programs, thousands of grantees, and even more subrecipients. Several HUD grant programs received large influxes of funding following disasters or during the pandemic, in amounts exponentially greater than funding previously received. Many of these grantees lack experience and familiarity with block grant program rules and activities; furthermore, they lack capacity and staffing to directly administer the programs.

To help mitigate these concerns, HUD OIG oversight adapts to match areas of emerging risk. HUD OIG focused on ensuring HUD pandemic and other grant funding is spent as intended, that timely assistance is being provided, and assessing the program outcomes. This includes assessing how well HUD, its grantees, and subrecipients are performing monitoring activities, the strength of their internal controls, and the fraud prevention measures they have in place. HUD OIG is also assessing outcomes of the program by reviewing grantees and subrecipients before they have expended a significant portion of their funding to assess what they have been able to accomplish and where improvements can be made for the duration of the grant, with the goal being to help HUD and the grantee or subrecipient early on to produce better outcomes.

Importantly, HUD OIG has issued oversight reports recommending that HUD codify, or seek permanent authorization for, its disaster recovery program. HUD has taken consistent, meaningful steps to address HUD OIG's recommendations. Successive administrations have expressed support for permanent authorization in testimony before Committees of Congress, and HUD is again seeking permanent authorization in its Congressional Budget Justification for FY 2025.¹⁴ Legislation permanently authorizing HUD's disaster recovery program would streamline, reform, and inject greater fiscal responsibility into the program, while also mitigating funding lags and duplicative requirements.

Examples of impactful oversight over HUD's grant and disaster recovery and mitigation programs include:

[The Puerto Rico Housing Finance Authority's Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably](#)

We conducted an audit to assess whether the Puerto Rico Housing Finance Agency's (PRHFA) homebuyer assistance (HBA) program was on track for delivering the expected program outcomes and the impact the program had on home ownership rates in Puerto Rico after Hurricanes Irma and Maria. Our audit found that the program was on track to deliver the expected outcomes and that program participants were mostly satisfied with the program, stating that the program had a significant impact on their lives. However, HUD's grantee, the Puerto Rico Department of Housing (PRDOH), did not have current and reliable data to measure the HBA program's impact on home ownership rates. In addition, PRHFA could not demonstrate how it calculated household income and the financial assistance award

¹⁴ https://www.hud.gov/sites/dfiles/CFO/documents/2025_CJ_CDBG-DR_Cross-Cut.pdf



amounts in any of the 67 closed cases we reviewed. Further, PRHFA inappropriately allowed participating lending institutions to interpret its vague and confusing program guidelines and procedures to calculate the award amounts, resulting in participants with similar financial conditions receiving substantially different award amounts. By not having a clear, consistent, and verifiable method to determine the financial award for eligible participants, PRHFA could not ensure that disaster recovery funds were equitably distributed among program participants and that it was maximizing the effect of the program.

HUD OIG recommended that HUD work with PRDOH to determine whether its current method of measuring how many applicants purchased homes through the program was the best way to measure the HBA program's impact and to update its guidance and action plan based on the results of the review. We also recommended that PRDOH and PRHFA develop and implement clear and consistent guidance and procedures that establish a verifiable method for determining financial awards and provide necessary training to participating lending institutions.

[Preventing Duplication of Benefits When Using Community Development Block Grant Disaster Recovery and Mitigation Funds](#)

We conducted an audit examining HUD's efforts to prevent duplication of benefits in its CDBG-DR programs to determine HUD's process for assessing the adequacy of grantee procedures to prevent a duplication of benefits before and after grant execution. HUD certified grantees' high-level processes for preventing duplication of benefits before grant execution and allowed grantees to develop more detailed procedures for individual grant activities later. However, HUD did not review grantees' more detailed procedures before grantees began spending funds on program activities and HUD's adequacy criteria did not include all statutory requirements. Because HUD certified procedures that did not meet requirements and did not review detailed activity-level procedures before grantees began spending funds, it risked grantees' failing to prevent duplication of benefits.

HUD OIG recommended that the Office of Disaster Recovery review grantees' activity-level procedures for adequacy before grantees process applications for assistance to prevent any duplication of benefits and ensure that all applicable requirements for preventing any duplication of benefits are included in the adequacy criteria, grantee certifications, and HUD review checklists supporting the certification.

[After More Than 6 Years, The City of New Orleans' National Disaster Resilience Project Activities Had Made Little Impact on Resilience](#)

We audited the City of New Orleans' National Disaster Resilience program to assess whether the City's grant activities were effective in its recovery from past disaster events as well as whether the City improved its ability to withstand future extreme events. We found that all 11 of the City's major infrastructure projects that were planned in 2017 and designed to combat flooding, had been significantly delayed. Specifically, only 1 project had made progress although it had been underway for 5 years, 2 projects were slated for cancellation, and the remaining 8 were still in the design or planning phase. In addition, the City had disproportionately spent more of its National Disaster Resilience funds on planning and administration than on the design and construction of its planned projects and program



Testimony: HUD Inspector General Oliver Davis, June 26, 2024

activities. Further, the City's Retrofit program did not reduce the flood risk in many cases and left some homeowners with more flooding and physical and financial burdens. As a result, (1) the City has been left vulnerable to damage from future rain and flood events, (2) homeowners are more exposed to property damage, and (3) the City may run out of funds needed for program oversight. If the City runs out of funds, it will need to allocate non-Federal funds, which may be limited, to complete monitoring and oversight of the National Disaster Resilience program.

HUD OIG recommended that HUD require the City to reassess the 8 infrastructure projects still in the design or planning phase to determine whether the City can complete the projects or how the remaining \$14.6 million in project funds could be best used within the 6 years remaining for the grant period; ensure adequate and timely monitoring of the City's projects and programs; implement a HUD-approved planning and administration budget and staffing plan; develop a plan on how it will fulfill its required program oversight if it runs out of planning and administration funds; and, develop a plan on how the City's Retrofit program can better serve homeowners.

CPD Could Improve the Timing of Delivery of Disaster Recovery Funding

HUD OIG audited HUD's disaster recovery program to determine whether the Office of Community Planning and Development (CPD) had improved the timing of its delivery of disaster recovery funds and whether it met congressional allocation timing requirements. CPD's time to deliver disaster program funds to grant recipients varied between 2001 and 2022 and trended upward. In addition, CPD did not meet publishing requirements in one public law and allocation requirements in another public law. CPD's increase in time to deliver disaster program funds and its inability to meet a few of the statutory requirements were caused by (1) the disaster recovery program's lacking permanent authorizing legislation; (2) required coordination among multiple Federal agencies, various HUD offices, and the grantees; and (3) other external and internal issues. As a result, grantees had to wait longer to execute their grant agreements and start spending the disaster recovery funds. Further, CPD lacked consistent and documented allocation data for all grantees, which impaired its ability to benchmark and consistently report the date of allocation to Congress or the public.

We recommend that HUD (1) collect and record the number of days that it or other entities take to complete each milestone in the grant process, (2) establish timing benchmarks for the milestones at each significant step in the allocation and award process based on actual data accumulated for the various grants, and (3) take steps to ensure that the milestone point of allocation is formally defined and documented, to allow for accurate tracking of compliance with requirements. We believe that implementation of the recommendations would improve overall timing of program delivery and ensure that funds are provided to grantees as quickly as possible.

The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients

We audited the State of Georgia's monitoring of its \$50.9 million in disaster recovery grants' activities and subrecipients to determine whether the State effectively monitored them to ensure that the activities addressed unmet long-term recovery needs. The State (1) lacked an understanding of the



differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State's controls for program administration were effective for addressing unmet long-term recovery needs. There was also a risk that the planned activities would not serve the State's beneficiaries in a timely manner or meet its goals for the number of beneficiaries it planned to serve.

We recommended that HUD require the State to ensure that it has an adequate approach for monitoring by (1) providing training to staff that includes an understanding of monitoring reviews, (2) updating its policies and procedures, and (3) developing policies and procedures to ensure that monitoring is conducted remotely if needed. We also recommend that HUD monitor the State's CDBG-DR program to ensure that performance expectations are achieved.

[Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities](#)

We audited the Virgin Islands Housing Finance Authority's monitoring of its CDBG-DR-funded activities to determine whether the Authority effectively monitored its CDBG-DR-funded activities administered by itself and its subrecipients to ensure that the national objectives and performance measures were met. We found that the Authority did not (1) assess the activities' performance during its monitoring, (2) consistently track the status of corrective actions, (3) verify that the activities' national objectives were or are being met, and (4) consistently monitor the activities. The Authority lacked policies and detailed procedures to guide its staff on effectively monitoring and tracking corrective actions and ensure performance metrics included in subrecipient agreements were assessed. Therefore, HUD could not be assured that activities were progressing, identified deficiencies were corrected, and funds were used for authorized purposes.

We recommend that HUD require the Authority to develop and implement monitoring policies and detailed procedures to ensure that an activity's performance is assessed, corrective actions in monitoring reports are tracked, and documentation supporting the national objectives is verified. In addition, we recommend that the Authority revise subrecipient agreements to include performance metrics and milestones that are tailored to the activity.

[The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses](#)

HUD OIG audited the Virgin Islands Housing Finance Authority's Non-Federal Match Program for CDBG-DR to determine whether the Authority effectively administered its Match Program by identifying and assessing any challenges that hindered its ability to achieve program goals. This audit determined that the Authority's administration of its Match Program had weaknesses. Specifically, the Authority had (1) insufficient financial controls, (2) insufficient oversight of its Match Program-funded projects, (3) inaccurate performance measures reported in its quarterly performance reports, and (4) insufficient documentation to support its national objectives. We found the Authority did not have adequate policies and procedures or did not implement its existing policies to ensure effective administration of its Match Program. As a result, the Authority was at risk of not managing its Match Program in compliance with HUD requirements and achieving program goals. Further, this condition could result in



the Authority providing program benefits to the intended beneficiaries late and increasing the risk of the Authority issuing improper payments.

HUD OIG recommended that CPD require the Authority to (1) develop and implement policies and procedures to address the challenges identified and (2) conduct training for its staff and disaster recovery Match Program recipients.

Financial Information Collected from CDBG Grantees Needs Improvement

We audited CPD's process for collecting financial information from grantees participating in the CDBG Entitlement program to determine whether the financial information collected from grantees was sufficient to monitor grantee financial reporting and performance as required by federal regulations. The financial information HUD collected from CDBG Entitlement grantees was not sufficient to monitor grantee compliance with cash management requirements contained in federal regulations. CPD Cash on Hand Quarterly Reports (PR 29 reports) were not submitted or were submitted after the required deadline for certain quarters and resubmissions were not tracked by HUD. Without reliable and timely financial data, CPD cannot adequately monitor grantees' excess cash or properly assess their compliance with cash management requirements, thereby increasing the funds' susceptibility to the risk of fraud, waste, and abuse. Further, since the reports were not submitted in a timely manner and were not reliable, the information collected could not be leveraged by the Office of the Chief Financial Officer to properly report grantee financial information in compliance with the Statements of Federal Financial Accounting Standards.

HUD OIG made several recommendations, including that CPD improve its guidance, training, and monitoring of the PR 29 report to ensure that the information collected is reliable, accurate, and timely.

Impactful Investigations

Camp Verde Woman Sentenced to 24 Months in Prison for Embezzlement of \$670,000 from Yavapai-Apache Nation

The former Comptroller and Executive Director of the Yavapai-Apache Nation Housing Department was sentenced to 24 months in prison, followed by 36 months supervised release, and ordered to pay restitution in the amount of \$667,043 for her role in embezzlement and theft. Between August 2017 and May 2022, the former Comptroller/Executive Director embezzled \$670,908 from the Yavapai-Apache Nation, including over \$133,000 of HUD Indian Housing Block Grant Funds. As Comptroller and Executive Director, she was the supervisor of the accounting department and oversaw day-to-day activities and financial transactions. As such, she had access to housing department credit cards and knowledge of its vendor accounts. In 2022, it was discovered that there had been hundreds of thousands of dollars in fraudulent purchases via Tribal credit cards. On at least 184 occasions she fraudulently transferred funds into her personal accounts.

Former Worcester Housing Official Sentenced to 40 Months in Prison for \$2.3 Million Property Development Fraud Scheme



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A former City of Worcester chief of staff for the Executive Office of Economic Development was ordered to pay more than \$2.3 million in restitution to the City of Worcester following her conviction of conspiracy, wire fraud, and false statements.¹⁵ The defendant and her coconspirator applied for and received approximately \$2.3 million in HOME, Neighborhood Development Program, and lead abatement funds to rehabilitate a multifamily apartment building. The defendant knowingly approved false or fraudulent payment requests for HUD grant funds from her coconspirator for work that had not been completed and costs that had not been incurred.

[Hoboken Woman Admits \\$1.5 Million Fraud Scheme That Targeted Over 100 Non-Profit Victims, Including Schools, and Religious Institutions](#)

A Hoboken woman pled guilty to stealing over \$1.5 million from over 100 victims made up mainly of non-profits, private schools, and religious institutions throughout New Jersey. According to case documents and statements made in court, from 2012 through 2021, the woman falsely claimed to be a certified public accountant and defrauded over 100 victims, resulting in financial losses totaling over \$1.5 million.

[Former West Haven Employee and State Representative Sentenced to Prison for Stealing COVID Relief and Other City Funds](#)

A State Representative who was also employed by the City of West Haven, most recently serving as the Administrative Assistant to the City Council, was sentenced to 27 months in prison following a previous guilty plea to conspiracy charges stemming from involvement in schemes that resulted in the theft of more than \$1.2 million dollars in COVID relief funds and other funds from the City of West Haven. The individual conspired with others to steal the funds through the submission of fraudulent invoices, and subsequent payment, for COVID relief goods and services that were never provided. Two co-conspirators were sentenced to 13 months and 6 months in prison after pleading guilty to conspiracy to commit wire fraud. A third co-conspirator was sentenced to 8 years in prison, after being convicted of wire fraud and conspiracy charges following a jury trial.

Enterprise-wide Support Functions: Human Capital Management, IT, Cybersecurity, and Procurement

A common thread in our Top Management Challenges report was HUD's challenges with managing human capital, IT modernization and cybersecurity, as well as efficiencies in procurement. These are not unique to HUD, as the IG community has found these issues to be Top Management Challenges throughout the Federal government. HUD has also taken recent steps to address some of the challenges, notably through improved communications between offices responsible for these services and the program offices that rely on them. HUD's most recent Strategic Plan shows how the Department has dedicated considerable effort to strengthening its internal capacity. HUD OIG's

¹⁵ The defendant was previously sentenced to 40 months incarceration and 3 years supervised release.



oversight has and will continue to provide actionable recommendations that HUD can act upon to further those efforts.

As noted above, employees and program participants have consistently described HUD as being underfunded and understaffed, with inadequate infrastructure to address the growing mission, program responsibilities, and mandates of the agency. In turn, the efficiency and effectiveness of HUD's programs relies on its ability to effectively modernize its IT systems and to protect them from cybersecurity vulnerabilities. HUD's legacy systems are major impediments to effectively addressing necessary operational enhancements, use an inordinate amount of scarce resources, and hinder HUD's ability to provide IT support for emerging and changing program office needs. Further, HUD must address concerns about its technical ability to securely collect, retain, process, analyze, and effectively share and compare data, concerns often connected to outdated IT systems. Notably, HUD has made great progress over the last several years with consistently addressing and closing longstanding cybersecurity recommendations.¹⁶

Almost all of HUD's program areas rely on contracting and procurement services, whether to provide services to support HUD personnel or to take a major role in executing key operations. HUD OIG has long reported on the challenges HUD faces related to procurement and acquisition management. Notably, in our Top Management Challenges Report, we identified acquisition management risks as including untimely procurements, inefficient acquisition processing, insufficient staff training and excessive workloads, and inadequate contract oversight as overarching risks.

Additionally, HUD OIG will continue its robust oversight over all aspects of HUD's IT programs and operations, including HUD's cybersecurity posture but also how HUD and its components manage IT investments and initiatives. In addition to our comprehensive review of HUD's information security program under the Federal Information Security Modernization Act of 2014, we will conduct penetration testing and threat analyses of HUD's IT systems.

[HUD FY 2023 Federal Information Security Modernization Act \(FISMA\) Evaluation¹⁷](#)

The Federal Information Security Modernization Act of 2014 (FISMA) directs Inspectors General to conduct an annual evaluation of the agency information security program. FISMA, Department of Homeland Security (DHS), OMB and National Institute of Standards and Technology (NIST) establish IT security guidance and standards for Federal agencies. We conducted this evaluation to assess the overall effectiveness of the Department's information security (InfoSec) program, assess their compliance with Federal guidance, and respond to OMB reporting questions for the FY 2023 annual assessment. HUD's InfoSec program averaged a score of 2.60 for the 20 core metrics and a 2.86 for the FY 2023 supplemental metrics, both of which are at the "defined" maturity level and are considered not effective. Although HUD improved overall, four of the five metrics in which HUD dropped in maturity were core metrics. HUD made commendable progress on increasing maturity on 10 metrics and should

¹⁶ HUD's OCIO very recently closed a Priority Open Recommendation from the HUD OIG Evaluation "[HUD IT Modernization Roadmap Report](#)" by approving an IT Modernization strategy that established a framework that aligned with its IT modernization roadmap, which should improve its ability to assign roles and responsibilities, prioritize initiatives, and coordinate processes between OCIO and program offices.

¹⁷ Prior year FISMA reviews include Priority Open Recommendations.

continue to focus on prioritizing maturity in the 20 core metrics and key cyber executive orders and requirements. These efforts will require a shared responsibility of proper resourcing, planning, and support from all levels of leadership across the Department. We issued 23 recommendations to improve HUD's InfoSec program.

HUD's Robotic Process Automation Program Was Not Efficient or Effective

We assessed the maturity of HUD's Robotic process automation (RPA) activities to determine whether HUD had implemented related controls to address technology and program management risks.¹⁸ We found that HUD lacked adequate controls and capacity to operate its RPA program efficiently and effectively. Approximately 3 years since its inception, HUD's program had achieved minimal progress and results, and maintained a low program maturity. The program lacked a clear vision or measurable metrics to define program success. HUD also did not maintain adequate oversight of bot development and operations to ensure that limited RPA program funds were used efficiently. Finally, HUD lacked important IT controls related to the security and auditability of its RPA system infrastructure. As a result of these weaknesses, HUD missed opportunities to capitalize on the potential benefits of RPA and expended IT resources inefficiently on projects that provided minimal value. We recommended HUD implement new internal controls and further develop its internal capacity to manage and oversee the RPA program.

HUD Employee Retention

OIG's evaluation of HUD's employee retention strategy found: 1) HUD's departmentwide retention strategies mostly aligned with selected best practices; 2) HUD's overall voluntary attrition rate was below the average of the three comparable agencies for FYs 2019-2022, but some subgroups had higher voluntary attrition rates; 3) weaknesses in some employment data may limit HUD's ability to track retention accurately; and 4) use of retention programs vary across HUD. OIG provided HUD with five recommendations, three related to improving the quality and usefulness of retention-related data and two related to determining the causes behind higher than benchmarked attrition in subgroups within HUD and addressing those causes.

¹⁸ RPA is a software technology used to emulate human actions on a computer. RPA software programs, referred to as "bots," can complete repetitive tasks quickly and consistently, freeing up employees to work on other, higher value activities.



Testimony: HUD Inspector General Oliver Davis, June 26, 2024

Conclusion

There are millions of families across the United States who rely on HUD's programs to provide decent, safe, and affordable housing, and communities throughout the United States look to HUD's programs to provide critical funding for housing and development grants to improve the lives of their residents. Just as HUD must rise to the challenges it faces, HUD OIG will continue to be a force of positive change for the Department.

We could not be prouder of the continued dedication of the HUD OIG staff as we strive to help HUD accomplish its mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. Through performing essential, innovative, and influential work that addresses HUD's most significant management challenges, we are dedicated to helping HUD operate more efficiently and effectively, and helps protect HUD's programs from fraud, waste, and abuse so that our communities receive the critical housing assistance they need.

Chairman DAVIDSON. Thanks, Ms. Davis.

Mr. Tomney, you are now recognized for 5 minutes for your opening statement and oral remarks.

**STATEMENT OF BRIAN M. TOMNEY, INSPECTOR GENERAL,
FEDERAL HOUSING FINANCE AGENCY (FHFA)**

Mr. TOMNEY. Thank you.

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 that my office is doing for the benefit of the American homeowners.

I am honored to appear with my distinguished colleague, Rae Oliver Davis, Inspector General with the Department of Housing and Urban Development.

Although each of our agencies has a unique mission and different work streams, we share many of the same oversight goals.

It has been a little over 2 years since I became the FHFA Inspector General in early 2022. During that time, we have issued more than 60 reports covering topics such as enterprise supervision and conservatorship, the Federal Home Loan Bank System, nonbank seller/servicers, business resiliency, appraisals, and the crucial area of cybersecurity.

Our findings largely demonstrate that FHFA is achieving better administrative and management results and maturing as an agency and a regulator. At the same time, we have identified areas where the Agency can improve and continue to progress. In those cases, we have offered recommendations, all of which the Agency has committed to implement.

In addition to the work of our report teams, our investigators play a significant role in protecting the Nation's mortgage markets through civil and criminal investigations of mortgage fraud and other financial crimes. We have routinely partnered with investigators from HUD and the Federal Deposit Insurance Corporation (FDIC) OIGs, the Federal Bureau of Investigation, and Federal and State law enforcement agencies. Our investigations often focus on fraud involving loan originations and modifications, short sales, and residential mortgage-backed securities, or RMBS.

We also continue to investigate pandemic fraud, often schemes that targeted the Paycheck Protection Program. Here we have seen fraudsters use illegally obtained Paycheck Protection Program (PPP) loans to take out millions in fraudulent mortgages and steal from multiple Federal Home Loan Bank member banks.

In the past few years, our Office of Investigations has reported more than 150 convictions or pleas and more than \$2.2 billion in criminal and civil penalties.

In 2023, our investigators, working with other Federal law enforcement partners, played a pivotal role in the resolution of one of the last cases from the financial crisis. Investment bank and financial services company Union Bank of Switzerland (UBS) agreed to pay almost \$1.5 billion in penalties to settle a civil action relating to underwriting and issuing RMBS in 2006 and 2007.

Just a few months ago, we also completed one of the largest PPP conspiracy cases up to now. After more than 2 years of complex

work, 17 conspirators were sentenced for their roles in fraudulently obtaining and laundering millions of forgivable PPP loans.

My team and I also take allegations of fraud against vulnerable people seriously, and when we have the jurisdiction to pursue justice for the victims, we are committed to doing so.

In one recent example, we investigated and supported the prosecution of three co-conspirators in a \$7 million fraud scheme that targeted vulnerable people. This included elderly homeowners in financial distress who were just trying to stay in their homes.

Sadly, although the fraudsters were found guilty and sentenced to 6, 10, and 25 years, all of the victims still lost their homes.

Looking toward the future, our reporting will continue to focus on areas of highest risk. Whenever appropriate, we will offer actionable recommendations to improve FHFA's operations and oversight. Some of this work will build on findings in previous reports; some will represent an expanded facet of oversight. I look forward to sharing the results of this work with you in the future.

While I cannot comment on our ongoing investigations, I can assure you that we remain vigilant in investigating and prosecuting fraud that affects our Nation's housing finance system.

In all of 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 you may have.

[The prepared statement of Mr. Tomney follows:]

**Statement of Inspector General Brian M. Tomney
Federal Housing Finance Agency Office of Inspector General
House Financial Services Subcommittee on Housing and Insurance
June 26, 2024**

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.

Chairman DAVIDSON. Thank you, Mr. Tomney, for your opening statement.

We will now turn to member questions. I recognize myself for 5 minutes for questioning.

Ms. Oliver Davis, I want to thank you for highlighting in your opening remarks the whistleblower protections that are out there. Just last month, we had hearings where two of our witnesses were basically driven out of Public Housing Authorities for basically blowing the whistle on the things that are going wrong there. So thank you for highlighting that.

I just want to know about the Hatch Act. The Biden Administration issued an executive order to have every Federal agency engage in voter registration.

Is voter registration part of the HUD mission?

Ms. OLIVER DAVIS. Thank you for that question, Mr. Chairman.

In reference to the Hatch Act, normally we would turn over allegations around the Hatch Act to the Office of Special Counsel, and I have not seen any guidance out on that at the Department as of yet.

Chairman DAVIDSON. I do not think you will see any coming from the administration about that at this time, but, frankly, in the past, Inspectors General have held people from both parties liable for violations of the Hatch Act. In fact, that has happened just as recently as the last administration within HUD.

I would ask that you take a look at the Hatch Act, particularly with respect to voter registration drives and the potential for ballot harvesting drop boxes at HUD properties. Could you do that?

Ms. OLIVER DAVIS. I am happy to look into that issue and find out more about it.

Chairman DAVIDSON. I think it lines pretty well outside the mission of Housing and Urban Development. So I really appreciate that.

I have introduced a bill, as I mentioned, a bipartisan commission to review HUD's organization to make recommendations for needed reforms. I think we can all agree, given the state of public housing, the gaps in overseeing billions of dollars of grants and overall delays, conditions in the public housing units, and, frankly, actual crime that thankfully is being prosecuted by the Department of Justice, that HUD is not functioning as efficiently or effectively as the American people expect them to.

If we could get this commission enacted, would you agree to work with the commission to the maximum extent possible to help in the evaluation of this?

Ms. OLIVER DAVIS. I would be happy to meet with the commission and learn how our oversight could be impactful, yes.

Chairman DAVIDSON. Yes. Thank you.

We are hoping to get that commission funded through appropriations and across the finish line but it has two members from each party. They cannot cut spending. They cannot launch new stuff, but they could refine the current programs and update the authorizations, which is a big issue within HUD.

Mr. Tomney, I want to thank you for highlighting the conservatism issues. One of the deficiencies in the current administration is they have not delivered a report that is required by law

to say what is the plan to end conservatorship, and that has not happened for quite a long time.

Now, the Secretary of Treasury is responsible for delivering the report, but of course the people that would be involved in it are the GSEs themselves within FHFA.

Have you seen any activity working toward fulfilling that legal obligation?

Mr. TOMNEY. Thank you for the question, Mr. Chairman.

Obviously, the conservatorship topic has been one for virtually 16 years now, that has a lot of complexity to it.

Chairman DAVIDSON. Almost old enough to be an adult but are they complying with the law that says give us a plan? Have you seen any activity going on that says they are working toward that?

Mr. TOMNEY. I have not seen anything. We have done some work in that space from our oversight perspective to confirm that FHFA itself, as it relates to conservatorship decisions, is for the most part properly documenting the decisionmaking process while they are in—

Chairman DAVIDSON. Yes. Thank you, and I would just ask you to give attention to that because it is a statutory obligation.

I sent you a letter in advance of this hearing questioning FHFA's use of the so-called new product rule. Fannie and Freddie are required by statute and by regulation to gain the approval of the Director of FHFA before introducing any new product, something that is incredibly important.

Recently Director Thompson used the new products rule to approve risky, unnecessary programs to allow Freddie Mac to purchase second mortgages. They mostly used it to kind of change the mandate and mission of the Federal Home Loan Bank.

So do you think that the 30-day public comment period is enough and are they complying with it?

Mr. TOMNEY. Thank you. Thank you for your letter last week and your thoughts that you expressed in it.

I am certainly familiar with both of the recent new products that have been approved, as well as the recent rule.

We have not done any work yet in that space. We are currently going through our risk assessment process now to plan for future products moving forward and to the extent that we evaluate this space, we will certainly be able to consider that.

Chairman DAVIDSON. They seem to be timed very selectively, ahead of like the State of the Union or a Presidential debate or something like that.

There is not demand from the public. There is not a comment period where they could weigh in and say this is a bad idea. So I would ask you to give attention to that.

The other part is there are pipelines in the process—there are products begging for approval that have been in the process for years, and they cannot get a decision out of FHFA. So it is very selective. I do not think they are complying with the new product rule, and I would ask you to look at that.

My time has expired. I now would like to recognize the gentleman from Missouri, Mr. Cleaver, who is also the chair of the Subcommittee—the ranking member of the Subcommittee on Housing—for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Ms. Davis, is registering voters a political act? I mean, I know telling residents in public housing how to vote is, but the registration part.

Ms. OLIVER DAVIS. Congressman, I am not sure I can be helpful in this area. I do not really have all the facts. I do not have expertise in this particular area to offer.

I am happy to listen to the member, the subcommittee members' concerns on this, and learn more if I can.

Mr. CLEAVER. I am not concerned. Having lived in public housing, I know I do not ever remember my parents going up to the office to get a ballot on how to vote.

The other issue: The Biden-Harris Administration inherited 1,733 recommendations left open and unaddressed by the previous administration. On this past March, the administration had closed 253 OIG recommendations, reducing the total number of open recommendations to 820.

As HUD continues to implement the OIG's recommendations, substantial investments are needed to strengthen its programs and oversight capabilities.

Do you agree with the fact that resources are needed to address the problems that have been exposed?

Ms. OLIVER DAVIS. We have identified and we have tried to reflect that in our "Top Management Challenges" report this year. The capacity is a major concern for the Department, capacity in terms of skill sets, people, resources, technology. Certainly, they need additional capacity to hold their program partners accountable.

Mr. CLEAVER. When the HUD Secretary was here she spoke publicly about—and I have spoken with her about this privately—that many of the things that the Department receives criticism for not having done and the directions to get certain things done are simply beyond the capacity of HUD with the current allotment from Congress.

Mr. Tomney, I know the OIG office does not get into the congressional prerogative of the funding. However, if the recommendations from you continue to pile up, is that not going to create an—do damage to HUD ever catching up with all the recommendations?

Ms. OLIVER DAVIS. We certainly take that into account as we start new work. I mean, the same can be said of, frankly, my resources and my portfolio. There is an enormous program that we have to oversee.

So we have to risk-base our work. We have to make sure that we get the critical parts of HUD's portfolio and make very smart, very focused recommendations.

Things like Ginnie Mae with a trillion-dollar portfolio, we were in the past pretty much focused just on the financial audit. We now have an audit team that looks primarily at Ginnie Mae.

We are trying to be very good stewards of our resources and make very good recommendations.

Mr. CLEAVER. Yes. I agree that, as the recommendations go unaddressed because there are not the dollars for HUD to address them, the same thing applies to the OIG, does it not?

Ms. OLIVER DAVIS. It does. We can always do more with more and there is always more to do, frankly.

Mr. CLEAVER. Does your office also monitor issues that tenants may be raising? I mean, do you look into tenants organizations, welfare rights organizations who also registered concerns and raised issues?

Ms. OLIVER DAVIS. Well, first and foremost, we certainly have a hotline, and we get a remarkable amount of input and outreach from tenants.

We have also been doing community outreach. Just yesterday, I was out in DC with the D.C. U.S. Attorney meeting with community groups, which we hope will touch tenants and get to tenants, talking about our initiatives, our lead initiatives, our sexual misconduct initiatives out in housing.

So we are taking into account tenants and meeting quite a bit with individuals that can speak directly to their concerns.

Mr. CLEAVER. Thank you.

I yield back, Mr. Chairman.

Chairman DAVIDSON. Thank you, Mr. Cleaver.

Floor votes have been called. We will try to get through a few more rounds of questions and then it is the intention for the committee to recess to allow members to vote and immediately resume the hearing as soon as these votes are finished.

With that, I recognize the gentleman from South Carolina, Mr. Norman, for 5 minutes.

Mr. NORMAN. Thank you, Mr. Chairman.

Thank you for appearing today.

I think your comment about the importance of correcting the mismanagement and I guess fraud that is within the division—what kind, a question for both of you, what do we need to do in Congress to speed up the process? I notice you had commitments that were going to improve or I guess look into the complaints. What kind of timetable and what kind of, I guess, ramifications if they do not comply?

Ms. OLIVER DAVIS. Congressman, are we talking about open recommendations? Yes.

One thing that we have done at HUD OIG is we have really focused in on priority recommendations. As other members have cited, we have a large number of recommendations that we have made at the Department. What we try to do is really focus on the ones that can make the most difference.

I would draw the subcommittee's attention to those. Things like elevated blood levels in children in public housing, things like IT concerns over security when there is personally identifiable information (PII) at risk.

In terms of the recommendations, we have a process that we follow internally, and sometimes that process leads to agreement and sometimes it leads to disagreement.

One thing that I am very much hoping to do as the head of my agency is be in control of the closure of those recommendations. I want to be in the position to look at what HUD is doing and say whether or not they have satisfied my recommendation. That is something I do not necessarily have the authority to do right now.

Mr. TOMNEY. Thank you for the question.

Obviously, there is a scale difference between HUD and FHFA as far as our open recommendations. As of just yesterday, we were only at 42 and within the last 2 years since I have taken office, the FHFA has closed 98, and of that, about half of those were ones that were recommended during my tenure.

Director Thompson came to me early on, on her own, and acknowledged the open recommendations and committed to me that she was working to close them and implement them as quickly as possible.

By and large, I have been pleased with the response that we have gotten from the Agency, and certainly nobody on my staff has raised any particular concern.

So we are working to close them as fast as possible. Some are easier than others. Some could be just a quick update of training to a certain group of people. Others could involve IT infrastructure changes that will just take time.

All in all, I have been pleased with the closure pace in my Agency.

Mr. NORMAN. They are not only giving you responses, they are giving you actions that are correcting the recommendations to make the Agency better?

Mr. TOMNEY. Correct. So the process is that once we make a recommendation, it is on FHFA to then implement that.

Once FHFA believes that they have fully implemented it, they reach back out to the team, the audit team or the evaluation team that made the recommendation.

We make the determination of whether they have satisfied that recommendation. Once they do, we then close the recommendation as implemented.

Mr. NORMAN. Okay.

Congressman Davidson had mentioned the Hatch Act. What is literally taking place is at pretty much every government agency they are giving out voter registration forms. I am from South Carolina. We are checking into are these illegals.

A lot of them, the Federal Government under Biden has given Social Security numbers, given driver's licenses. Basically, it is a registration to vote when it is illegal on the face of it. We are looking into that now.

Are you aware of this and do you condone this?

Mr. TOMNEY. I have certainly not seen that. I have certainly seen the Hatch Act warnings from my office come out to remind folks to be mindful of it, particularly in an election year. I have not seen this in my office, and it has not been an issue that has been raised to me.

Ms. OLIVER DAVIS. Sir, I am not aware of it as well. Likewise to my colleague, we train on the Hatch Act internally. We discussed it, but I am not aware of this activity. I am not.

Mr. NORMAN. Okay. Thank you for your time. Hopefully we can—I am in the home building business. I do not know what affordable housing is anymore and particularly with the way we are with providing housing for the illegal aliens, we have a problem all over this country, affordable problem.

Thank you so much.

Chairman DAVIDSON. Thanks, Mr. Norman.

I now recognize the gentlewoman from California, Ms. Waters, who is also the ranking member of the full committee, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would like to direct this question to Ms. Rae Oliver Davis.

I am looking at an article from The Washington Post, July 28, 2019, and it is where President Trump characterized Representative Elijah Cummings' Baltimore-based congressional district as a rodent-infested mess where no human would want to live.

Also, I am looking at the fact that the President just a few days ago made a similar statement about Baltimore. It appears that the Kushner family own thousands of apartments that were considered rat infested and other kinds of problems.

Do you know whether or not those rat-infested apartments owned by Mr. Kushner are still in Baltimore?

Ms. OLIVER DAVIS. I cannot speak to those specific properties or the specific units.

Ms. WATERS. I cannot hear you.

Ms. OLIVER DAVIS. I cannot speak to those specific properties or the specific units.

Ms. WATERS. Have you had complaints about rat-infested apartments in Baltimore, Maryland, or in Virginia, that were owned by Mr. Kushner or his family?

Ms. OLIVER DAVIS. I would need to do some internal data gathering to verify whether or not we, in fact, had complaints about that.

Ms. WATERS. The President just a few days ago said it was a mess, it was terrible.

Have you thought about looking into it, since the Vice President—I mean, the former President—said that it was a mess, Baltimore was a mess?

Ms. OLIVER DAVIS. We have a pretty robust portfolio in terms of decent, safe, and sanitary issues involving public housing in HUD-assisted housing, and we are always looking to hear about more issues. We are certain they are out there.

Ms. WATERS. How long have you been Inspector General?

Ms. OLIVER DAVIS. Since the beginning of 2019.

Ms. WATERS. Have you conducted any investigations on rat-infested apartments in Virginia or in Baltimore?

Ms. OLIVER DAVIS. We have, again, a remarkable—we have a remarkable portfolio in this area.

I cannot speak to specifics on rats or mold, although we do hear about that quite a bit nationwide. That is not an unusual complaint that we would get.

We are looking at unit conditions across the board. Voucher programs that are participating, we are looking at unit conditions in specific properties, Rental Assistance Demonstration (RAD) conversions. We are certainly in the Public Housing Authority (PHA) space and multi-family. We are doing a lot of work.

Ms. WATERS. Did the former President's comments catch your attention just a few days ago and give you cause to want to take a look and see what was happening in this place he called a mess, the city of Baltimore?

Ms. OLIVER DAVIS. Frankly, you are raising my awareness to those comments today.

I hear comments daily that are extremely concerning to me about the state of HUD housing and specific landlords and PHAs.

Ms. WATERS. Is it unusual to hear about a city that is a mess who maybe have apartments that are participating in Federal resources that would cause you to take a look, and particularly if the accusation came from high places?

Ms. OLIVER DAVIS. I understand the sense of urgency around this, and we are paying attention daily to what we read and hear, and I am happy to keep dialoguing with you on this, absolutely.

Ms. WATERS. If, in fact, any of these rat-infested apartments are owned by the Kushner family, would you be hesitant to investigate them and take a look because of who they belong to?

Ms. OLIVER DAVIS. We are not hesitant to look into any allegations, especially in this arena. That is not how we operate. We are completely independent and it does not factor in.

Ms. WATERS. Have you ever followed up on rat-infested apartments?

Ms. OLIVER DAVIS. In general?

Ms. WATERS. Anywhere.

Ms. OLIVER DAVIS. In general? Well, I think that is a pretty common thing that we hear about, frankly, in the course of our audits and investigations. It is not unusual.

Ms. WATERS. The reason I raise these questions is because when we deal with housing we find that so many people are undermined, under taken care of. We find that people in high places do not get investigated, that we know about thousands of apartments in this country that are infected where nothing is going on from any Inspectors General.

It sounds as if you do not know anything about what you do with rat-infested apartments owned by anybody. Is that right?

Ms. OLIVER DAVIS. Well, when it comes to those type of allegations, we reflect them in our audit work. We talk about how HUD is responding to those type of things. Like, for instance, we have done two audits recently talking about how HUD is dealing with both life-threatening situations and non-life-threatening situations.

Chairman DAVIDSON. The gentlelady's time has expired.

Ms. WATERS. Thank you.

Chairman DAVIDSON. It is now time for members to make their way to the floor. As a reminder, we will immediately resume the hearing after votes.

The committee stands in recess.

[Recess.]

Chairman DAVIDSON. The Committee on Housing and Insurance will come to order.

I now recognize the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes of questions.

Mr. FITZGERALD. Thank you, Mr. Chair. I am going to go quickly here, so bear with me.

I am sure you are aware the Administrative Procedure Act defines a rule as an agency statement that is, quote, of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy.

FHFA's bi-merge requirement would affect participants in the housing finance market. It also is a major change in policy from the longstanding tri-merge requirement.

I am concerned that under Director Thompson's leadership the FHFA seems to be hiding kind of behind their role as the conservator of Fannie Mae, Freddie Mac to skirt requirements of the American Planning Association (APA).

Mr. Tomney, does your office have any plans to investigate the FHFA and whether or not they are following APA with its policy change announcements?

Mr. TOMNEY. Thank you for the question.

We have not done work in that specific space. As I said to the chairman earlier today, we are currently engaged on a risk analysis leading into future products and so, hearing from stakeholders like yourself today is certainly something we will be looking at, and we are happy to work with you, and stay tuned.

Mr. FITZGERALD. Thank you.

Former Director Mark Calabria issued a proposed rule of prior approval for enterprise products proposed rule. That was subsequently finalized by Director Thompson. This rule is an important guardrail, as you know, to ensure that the GSEs do not inappropriately expand their footprint in the housing market and displace true private capital.

FHFA's 2023 report to Congress noted that between April 28, 2023, and April 28, 2024, during that year FHFA completed its review of ten new activities and, based on factors set forth in the regulation, determined that three should be treated as new products that merit public notice and comment.

Do you plan to issue a report assessing compliance with prior approval for enterprise products final rule?

Mr. TOMNEY. It is certainly something we are looking at. We have not made that decision yet, but I am certainly familiar with the topic that you are speaking about, and it is going to be a continued topic for us moving forward.

Mr. FITZGERALD. Last Friday, the FHFA conditionally approved a pilot for Freddie Mac to purchase closed-end second mortgages, a proposal that I guess you could say was opposed by Members of Congress and the industry and some consumer groups as well.

Will you issue a report on the pilot to determine whether the objectives of the pilot were met and that FHFA fully adhered to the regulation?

Mr. TOMNEY. Thank you.

It is certainly something we are considering and will be speaking about in the coming weeks as we plan our future products.

Mr. FITZGERALD. IG audits of the Community Development Block Grant Disaster Recovery Program have determined that the time to deliver program funds to grant recipients varied greatly between 2001 and 2022 and trended upwards.

This funding has always been implemented pursuant to appropriations language, which makes changes to the underlying Community Development Block Grant (CDBG) statutory requirements.

To Ms. Davis, how does the discrepancy between CDBG requirements and appropriations language affect the timeline for allocating CDBG direct funds?

Ms. OLIVER DAVIS. Well, thank for that question.

I think the complications with Community Development Block Grant Disaster Recovery (CDBG-DR) are the simple fact that the program does not have permanent authorization, so it does not have as much predictability.

We have long sought permanent authorization. We have seen progress. We have had our previous two Secretaries, both former Secretary Carson and former Secretary Fudge, endorse that, say they support permanent authorization.

We have seen progress at the Department. They now have a consolidated notice that they issue. Sometimes grantees are working at multiple notices at any given time while in the process of having an urgent need trying to execute funds, trying to build capacity.

Mr. FITZGERALD. How could they make that process more efficient.

Ms. OLIVER DAVIS. Permanent authorization would certainly help. It would certainly help with the timeliness and the deliverability of the funds. It would.

Mr. FITZGERALD. What do you think about State and local governments taking on a larger share of the mitigation?

Ms. OLIVER DAVIS. Well, we need to make sure we are ensuring that there is proper monitoring and we are assisting the subrecipients, because it never just stops with the grantees. This is a very decentralized process.

Mr. FITZGERALD. Very good.

Last year, the FHFA undertook a comprehensive review of the Federal Home Loan Banks, calling it the first such review in over 90-year history of the Federal Home Loan Banks (FHLB) system, a statement that kind of ignores the multiple times that Congress has reviewed and made statutory changes to the system. We are kind of use to that, I guess, in Congress.

The report calls for several changes to the system, including to its mission and usage.

Has the Inspector General, Mr. Tomney, has the Inspector General reviewed the FHFA's mandate to make such changes absent clear congressional directives to do so?

Mr. TOMNEY. Thank you for the question.

I am certainly familiar with the report.

Chairman DAVIDSON. The gentleman's time has expired. I ask you to respond in writing to the question.

Mr. FITZGERALD. Very good. Thank you.

Chairman DAVIDSON. I thank the gentleman.

The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Mr. Chair.

I want to talk about lead exposure within HUD.

Inspector General Davis, we have a saying in my district: A child cannot learn if they are hungry. Also, a child cannot really learn, cannot thrive, if they are being poisoned, being exposed to lead and so much more.

In Detroit, I know 90 percent of the housing stock was constructed before 1980, and that is only about 2 years after lead-based paint was banned. As of 2020, we have learned that more

than one in twenty children in Detroit tested positive for elevated blood lead levels.

So this is an issue of all types of housing, even in the private industry where I think it is like 20 percent of private housing units alone have also lead-based hazards.

So, Inspector General Davis, can you discuss some of your recommendations? Because even though the Biden Administration has announced a tremendous amount of investment in lead abatement, implementation matters, and we just have not seen it on the ground.

Can you discuss some of the recommendations OIG has had for HUD in terms of lead-based hazards in public housing?

Ms. OLIVER DAVIS. Well, thank you so much for drawing attention to this issue.

This is part of my environmental justice initiative that I released last year. We have been working very closely with the Department of Justice. They have actually included us in their environmental justice policy. We have been working so closely over time now.

In terms of lead, we have made a number of priority recommendations that remain open that we think will make a difference.

First and foremost, we want the Department to get their arms around the problem. We want them to understand the number of units that might potentially have lead and that is so that they can adequately resource their oversight of that issue.

We are also looking at some of the tools they have in place to track elevated blood lead levels like you are talking about. They have a tool in place, but we know there are variances in it. For instance, we see elevated blood lead levels (EBLLs) concentrated in certain States.

We know that, to your point, that housing stock is old throughout the country. So it would be unusual to see just certain States have a higher level of EBLL. So we think they need to address that issue.

We are also——

Ms. TLAIB. Did you look at the Capital Fund formula at all?

Ms. OLIVER DAVIS. I am sorry?

Ms. TLAIB. Capital Fund formula grants.

Go ahead and finish your thought, because I do want to talk to you about that, because even when we do find it, right, I mean, we are great at studying and finding out that there is a problem.

I know for HUD estimates I think addressing any health hazards in public housing is about 15,000 per unit, but the Capital Fund Formula Grant Program are less than 25 percent of that amount on average.

Ms. OLIVER DAVIS. Anything that we can do to combat this problem, I would be willing to talk to you further about, certainly.

Ms. TLAIB. Yes, I think that is something to look at, because, again, we can keep throwing money at it because we know there is a problem, but on the ground, the way we are doing it, I do not know if it has actually been effective.

Switching gears for just a moment, Inspector General Tomney. FHFA is responsible for ensuring enterprises and Federal Home Loan Banks operate in a safe and sound manner. Climate-related

risks impact the enterprise and FHL Bank mortgage loan portfolio's investments.

For example, the Congressional Budget Office (CBO) estimates that homes with federally backed mortgages already face an annual flood damage of 9.4 billion. I mean, I saw one of my neighbors, a very small neighborhood in my community, being flooded almost four times just in one summer.

Has FHFA made progress on recommended actions to incorporate climate-related risks with what you have looked at?

Mr. TOMNEY. Thank you for the question.

We have certainly looked at disaster risk and the portfolio for some time now. We have issued a white paper on the topic. We are actually conducting a review right now of the flood insurance compliance to ensure that both Fannie and Freddie are ensuring that properties within a flood zone have the proper insurance.

So that is underway right now. I am happy to report on that in the coming—

Ms. TLAIB. Is that, when you all review, is flood mapping something you look at?

Mr. TOMNEY. We do not. Our auditors and evaluators will ensure that—

Ms. TLAIB. It is still connected, though, Inspector General. I mean, when you talk about access to insurance, one of the things that I hear from my constituents is the flood maps that the Federal Emergency Management Agency (FEMA) uses are so outdated.

Mr. TOMNEY. What is interesting is that historically Fannie and Freddie, because of the mandatory flood insurance, have not had a lot of exposure. Their risk tends to lie elsewhere, but I think as flood zones change and need to be reconsidered, there could be more risk in the future there.

Ms. TLAIB. Thank you both.

Chairman DAVIDSON. I thank the gentlewoman.

The gentleman from Nebraska, Mr. Flood, is now recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman.

I would like to start with FHFA's approval of a couple of potentially worrying private programs. The FHFA's approval of Freddie Mac's proposal to purchase second mortgages and their Fannie Mae title acceptance pilot are both potentially problematic ways of pushing the GSEs into other private markets that have nothing to do with their core mission.

As we know, Inspectors General are not necessarily in a policy-making role, but they are a good source of oversight, and in some cases we have questions about whether FHFA is following its own rules.

In a Senate Banking hearing, Director Thompson indicated that the pilot did not have to go through the products rule because it was a, quote, unquote, credit underwriting decision.

Mr. Tomney, could the OIG review instances where FHFA bypassed the prior approval for enterprise products rule by labeling a GSE program simply a, quote, unquote, credit underwriting decision?

Mr. TOMNEY. Thank you for the question.

We have not looked at that, particularly since the new rule was finalized last year. We are currently going through our process to plan new products in the coming months and toward the end of the year, and this topic is one I am familiar with, and we are certainly going to keep talking about it.

Mr. FLOOD. Well, thank you.

It would be exceptionally unnerving if the FHFA could use this, quote, unquote, credit underwriting decision to excuse—to avoid compliance with the new products rule. Frankly, you could classify any number of activities as related to credit underwriting. Where does the loophole end, is one of my questions.

The GSEs are already housing behemoths that have their hands in all parts of our housing ecosystem. If they are able to offer new products without even going through the new products rule, then we are going to see them continue to expand.

Everyone on this committee is well aware that the GSEs are not fully private entities. They are still in conservatorship. If they are interested in expanding into new markets, they should be spun out of conservatorship first.

They cannot have their cake and eat it too by remaining in place with implicit Federal backing and also cannibalize existing markets that have nothing to do with their charter.

Neither the pilot nor the second mortgage pilot have anything to do with expanding access to housing or affordable housing. In fact, the second mortgage pilot could run directly contrary to those goals by speeding up inflationary pressures that are already making our housing market incredibly expensive.

I would like to briefly pivot to HUD.

Last month we had two witnesses testify regarding waste and fraud at the public housing authorities. In both cases, the people that came to testify in front of the committee experienced retaliation for telling their stories.

My understanding is that Congress already passed a law protecting against this kind of retaliation for contractors, subcontractors, grantees, and subgrantees. That statute is Title 41, Section 4712 of the United States Code.

Ms. Davis, would public housing authorities which receive Federal appropriations be subject to those protections from reprisal?

Ms. OLIVER DAVIS. Yes, they should be. They should fall under 4712 as employees of a grantee.

Mr. FLOOD. I know there has been an issue with amending contracts before and after the passage of this law in 2013. In the case of our witnesses last month, one was actually hired well after the 2013 cutoff. That individual indicated they were not aware of any whistleblower protections in place for them.

For someone, particularly someone who is not a Federal employee, how are they made aware that these anti-reprisal rules apply to them?

Ms. OLIVER DAVIS. That should fall within the responsibility of the Department as the contractual relationship and the grantee relationship stand.

Mr. FLOOD. Okay.

Do you have any data on how many times the OIG office has actually pursued a legitimate whistleblower anti-reprisal claim? Like,

how many times has an investigation resulted in a successful outcome for the whistleblower?

Ms. OLIVER DAVIS. I do not have that data.

That said, I am certain the committee knows how important whistleblowers are both to you, to your constituents, certainly to every IG in their work and so, we have reflected the limitations that we have with the Housing Assistance Payments (HAP) contracts in the recent management alert, but I do not have the specific data about the numbers for you.

Mr. FLOOD. All right. Thank you very much.

With that, Mr. Chairman, I yield back.

Chairman DAVIDSON. I thank the gentleman.

The gentlewoman from Texas, Ms. Garcia, is now recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman.

I want to thank both of the witnesses for being here today, and thank you for your good work.

I want to start by first clarifying some of the comments that were made earlier by some of my colleagues.

It did not surprise me that both of you were not aware of any Hatch Act—direct Hatch Act violations at public housing or properties owned or financed by your organizations and it did not surprise me that you were not aware of any harvesting of any voters.

It seems to me something that the secretary of State of Mississippi said in response to the President's recent executive order. In fact, he was afraid, he said, of—well, I am not going to use the word. I call them undocumented immigrants. Others use some inhumane terms that begin with “I” and also “convicted felons.”

Are you all, either one of you, aware—just a yes or no, I do not want to hear about expertise or anything, just yes or no—are you aware of any allegations or complaints having been made to any one of your agencies, either directly or indirectly, about voter fraud or voter harvesting or Hatch Act violations?

Mr. TOMNEY. No.

Ms. OLIVER DAVIS. No.

Ms. GARCIA. No. Well, I am not surprised, because I am not sure that anybody can cite any. Certainly this secretary of State did not. Obviously, it has gotten some of my colleagues' attention.

The other one that struck me was that someone suggested that Biden, referring to the President of the United States, was going around handing out voter cards—again, to undocumented immigrants—and handing out driver's licenses.

Are you all aware of that happening at all at any one of your facilities?

Mr. TOMNEY. No.

Ms. OLIVER DAVIS. No.

Ms. GARCIA. Well, I am sure you are not, because, in fact, President Biden cannot hand out driver's licenses. That is something that the States do. It is a privilege to drive in these States and it is up to the States. So the President has nothing to do with it.

Certainly I do not think anyone would intentionally give an unauthorized immigrant, knowing that they are not citizens, a voter registration card. I mean, that is against all rules, or at least the rules in my State in Texas.

So it seems to me that all this is just a lot of nonsense to distract from the real housing crisis and the affordable housing crisis that is going around in America.

The last thing I did want to clarify is that my colleagues need to remember that the Housing and Community Development Act of 1980 does allow eligible mixed status families to apply for housing.

Again, it is mixed status families. In other words, someone has to be a citizen to apply. So I just want to make sure that we do not mix apples and oranges here.

The housing crisis really is about affordability, and it is important that people that are eligible for any of this housing are people that are, of course, first eligible, because then hopefully it helps us with the prices on other housing.

I know in Harris County, where I live, Hispanic home ownership has grown by 47 percent since 2010. However, Black home ownership has been declining. So that too is a very serious issue.

The affordability gap in this area alone has grown by 275 percent. So it is not getting better, it is getting worse, and that is what we should be focused on.

In my county, the affordability is benchmarked by affordable for someone earning a house—earning household of \$100,000 a year. Get real. That is not really the average person, at least not in my district.

So what are we doing to promote equitable access to home ownership for prospective home buyers?

I will start with you, ma'am.

Ms. OLIVER DAVIS. Well, HUD has a number of ways that they are encouraging home ownership. Certainly, FHA extends access to credit to eligible lenders, and they have some policies they have rolled out in order to encourage home ownership.

What we do in our oversight is look at the eligibility requirements and ensure that they are being met so that they do not put the fund at risk. We have made priority recommendations on large group of loans, things like individuals that have delinquent tax debt, individuals who perhaps are subject to a Federal offset because of child support.

We think that is a way to protect the fund, and that is the way to help the Department to continue to extend access to eligible homeowners, like you said.

They also do counseling before and after the purchase of a home. We have some ongoing work there to see if we can judge the performance of that counseling that HUD offers and how well it serves the individuals and if they have performance goals around that, whether or not they are being met.

We have grants, certainly, that are being extended. Puerto Rico home buyers program is one that encourages home ownership.

Chairman DAVIDSON. The gentlewoman's time has expired. I would ask Ms. Oliver Davis to just respond further in writing if you would like to continue to follow up.

I thank the gentlewoman from Texas.

Ms. GARCIA. Thank you.

Chairman DAVIDSON. Now another gentlelady from Texas, Ms. De La Cruz, is recognized for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman, and thank you to our witnesses for being here today. I do appreciate it.

I welcome today's hearing as part of this committee's effort to restore consistent and annual oversight of our Nation's housing regulators. This oversight is critical to ensuring the agencies under our jurisdiction focus solely on their core missions.

In line with our committee's 50-to-zero vote in support of my legislation, H.R. 7280, which is the HUD Transparency Act, I continue to advocate for the passage of this important piece of bipartisan legislation.

What it does is it requires the Inspector General to testify before Congress annually. You are aware of it. Although it is not in place right now, I really appreciate your appearance today before us. So thank you for coming before us.

Ms. Oliver Davis and Mr. Tomney, earlier this year we had the former HUD Secretary before this committee, and a lot of this was brought up concerning waste, fraud, and abuse.

The HUD Secretary made a statement that really disturbed me, and what she said was, in part, I quote, I wish someone would tell me where the waste, fraud, and abuse is.

Wow.

I think the work you have both published tells us—or tells the former Secretary—exactly where and how much misconduct has taken place and is currently taking place.

So my question to both of you is quite simple. What role do whistleblowers play in the work that you do to uncover this waste, fraud, and abuse?

We will start with Mr. Tomney.

Mr. TOMNEY. Thank you for the question.

Whistleblowers and people coming forth are very important to us. We have our hotline that receives dozens and hundreds of tips throughout the year. There are all types of different mechanisms for folks, including hearings like this, to be educated on exactly what an OIG does.

It is very important. Our Office of Investigations has done great work in following the fraud, waste, and abuse that has been reported.

Ms. DE LA CRUZ. Ms. Oliver Davis, do you agree with his statement?

Ms. OLIVER DAVIS. Oh, certainly. They are essential to us. They see and hear things that we simply cannot.

Ms. DE LA CRUZ. Would you say that the HUD Secretary was aware of these statements, of the things that they have seen and have reported back?

Ms. OLIVER DAVIS. I know that the Department is aware of whistleblowers, and I know they are aware of the importance of whistleblowers in our work.

We issued a management alert recently stating that employees of contractors that serve under HAP contracts are not being recognized for potential protections under the Whistleblower Act in HUD.

So that is something that we are raising awareness within the Department. It is something that is very important.

Ms. DE LA CRUZ. It would be fair to say that the HUD Secretary would be aware that there is waste, fraud, and abuse, correct?

Ms. OLIVER DAVIS. I believe so. I believe that is right.

Ms. DE LA CRUZ. Thank you.

With that, Ms. Oliver Davis, along those lines, I also want to bring up a management report that you issued to the then-Deputy Secretary, and now Acting Secretary Todman, in May 2023 after the HUD OIG identified that there was a significant gap in whistleblower protections for contractor employees pre-2013 that do not include congressionally enacted anti-retaliation provisions, referred to as Section 4712.

Could you tell us some of the recommendations that you have for this?

Ms. OLIVER DAVIS. Yes, absolutely.

One of the recommendations we have is that the Department get their arms around the scope of this problem. We identified it in the context of HAP contracts. There are thousands.

I am fearful that perhaps this is also a present problem throughout HAP's portfolio. We are asking HUD to attend to that and to let us know.

We are also asking HUD to go to their partners that have these contracts in place and ask them to consent to amend the contract to protect the very contract employees that they are employing.

Ms. DE LA CRUZ. Thank you. I yield my time.

Chairman DAVIDSON. Thank you, Ms. De La Cruz.

The gentleman from Nevada, Mr. Horsford, is now recognized for 5 minutes.

Mr. HORSFORD. Thank you to the chairman and to the ranking member, and thank you to our witnesses for appearing to discuss your work today.

Your offices are crucial as we continue to work to address the glaring lack of safe, clean, and, most importantly, affordable housing throughout the country.

In my home State of Nevada, we are bearing the brunt of this country's affordable housing crisis as low-income renters in Las Vegas and southern Nevada face the most severe shortage in the country.

There are only 13 affordable and available rental homes for every 100 households living in southern Nevada, according to the National Low Income Housing Coalition's 2024 Gap Report.

During the current shortage of available housing, the most vulnerable are compelled to compete for the severely limited supply, which leads to seniors and working families having to pay nearly half of their monthly income on rent.

At the same time, those payments do not go nearly as far as they used to for folks who are looking to own their own homes.

Since 2022, the average monthly mortgage payment throughout southern Nevada has increased an astounding 47 percent.

At events all across my district, I hear from constituents, really across the entire income distribution, who are struggling to find a way to put a roof over their head and to know that priority is important to all of us and to HUD.

The work that your offices undertake is vital to that mission as your oversight ensures that we are maximizing the efficiency of

every dollar that we spend to enhance our Nation's affordable housing stock.

Additionally, I want to applaud your recent efforts on prioritizing tenant safety and keeping a close eye on property's ability to handle emergency preparers, which will ensure that people are not just housed but that they can do so with dignity.

However, before we can even get to that point, we need to have a data-driven understanding of how to best efficiently deploy the limited resources that we invest in affordable housing.

That is why my legislation, the Housing Market Transparency Act, would empower HUD to collect and centralize tenant-focused data, such as habitability standards, as well the most recent inspection data for HUD-assisted properties.

Inspector General Davis, would you please discuss some of the strategies that your team would be better able to implement to mitigate potential hazards and address inefficiencies if HUD kept a centralized repository for this health and safety information from State housing agencies?

Ms. OLIVER DAVIS. We have touched on a very problem part of HUD's portfolio in rental assistance. We are looking constantly not only at the lack of units available and the vouchers that go unused, but also, as you have pointed out, the safe and sanitary issues that seem to permeate HUD's portfolio.

We are looking not only at HUD's oversight with respect to each of these in making recommendations, but we are actually looking beyond HUD at the grantee level, looking at living conditions within each of the program areas.

Mr. HORSFORD. What other data points would you recommend HUD begin collecting to inform your efforts to provide safe housing and to continue HUD's efforts around tenant protections?

Ms. OLIVER DAVIS. Well, as I mentioned earlier, we still do not have an accurate account of lead and how it affects the housing portfolio. We do not actually know where lead is in the portfolio, and lead is a huge problem, of course, for young people under 6.

I think we are looking and talking a lot about voucher utilization, that is a big thing. We have learned that the Veterans Affairs Supportive Housing (VASH) program, the PHAs are having some difficulty making sure the vouchers are utilized to the best of their ability, to see that our veterans are housed.

HUD is working on optimizing the voucher program in general. I think we need to look beyond those efforts at the performance of that program, the long term, and see how it is serving the public.

Mr. HORSFORD. Thank you.

I just wanted to close by also raising that my bill would also address collecting information around consumer lending data. I want to commend the ranking member, Mr. Cleaver, because he and I led a letter demanding answers to reporting that the Navy Federal Credit Union had engaged in potentially discriminatory lending practices by approving Black applicants at significantly lower rates.

I know we are still working to fully underscore the racial impact of that, and I hope that my colleagues on this committee would join with us and cosponsor the Housing Market Transparency Act. It is good legislation.

With that, I yield back.

Chairman DAVIDSON. Thank you, Mr. Horsford.

The gentleman from New York, Mr. Lawler, is now recognized for 5 minutes.

Mr. LAWLER. Thank you, Mr. Chairman.

Housing affordability is a serious crisis in our Nation right now. We are over 6.5 million units underbuilt at the moment, with mortgage rates at multi-decade highs, limited supply, and continued supply chain and construction issues.

For many, it is the most difficult time to purchase a home in a generation.

These, among other factors, have forced many potential homebuyers into the rental market, driving up rental demand and prices with it.

At such a critical time and so many families struggling to get by, so many vulnerable and low-income Americans are relying on access to decent, safe, and sanitary housing from Public Housing Authorities.

That is why your offices are so crucial and it is so important to have you here today and to make sure your work is being seen.

It is horrifying but so important to be hearing of these instances of waste, fraud, corruption, and abuse, and issues causing HUD's inability to provide decent, safe, and sanitary housing.

The New York City Housing Authority is by far the largest public housing authority in the Nation, consisting of almost 180,000 apartments. As such, it received over \$2.8 billion of Federal funding in 2023 through a range of different Federal programs.

New York City Housing Authority (NYCHA) has a long history of mismanagement and corruption, which has created unsafe and unacceptable living conditions for thousands of residents.

Inspector General Oliver Davis, I mentioned last year when you appeared here that I was pleased to see the role you and your team played in the arrest of 70 current and former NYCHA employees for a variety of offenses as part of one of the largest pay-to-play schemes in history.

Following up on that, what actions can HUD take to further compel NYCHA to make serious and sustainable reforms?

Ms. OLIVER DAVIS. Well, we have a whole host of priority recommendations in our portfolio that apply to PHAs in general which would also apply to NYCHA. They need to hold NYCHA accountable in that way. They need to work with the monitor who is in place to get data on the present circumstances and then hold their feet to the fire with those outstanding recommendations.

I also think, as we go forward, the implementation of National Standards for the Physical Inspection of Real Estate (NSPIRE), while it is good in theory, we will all be anxious to see how it rolls out and to see if it does answer all these problems that are known in the public housing arena.

Mr. LAWLER. What lessons can we learn from the failures of NYCHA to prevent similar corruption and lawlessness at other housing authorities?

Ms. OLIVER DAVIS. I think fraud risk management is something that we have been doing a lot of work in, and we are in fact in the process of doing a fraud risk management audit at NYCHA.

Certainly, PHAs need some flexibilities, but they have to have some controls in place and they have to have some guardrails that people cannot twist through. I am hoping that audit will be very beneficial certainly to NYCHA and to other PHAs.

Mr. LAWLER. So to that end, obviously in addition to the rampant mismanagement, waste, and corruption, HUD requires PHAs like NYCHA to address life-threatening exigent health and safety issues identified in inspections within 24 hours.

How is HUD monitoring and tracking whether PHAs are actually adhering to inspection results and correcting these serious health deficiencies in units?

Ms. OLIVER DAVIS. This is one of our priority recommendations that comes from an audit we did of HUD's oversight of PHAs and how they are dealing with corrective action following Real Estate Assessment Center (REAC) inspections. It is inconsistent, it is sometimes nonexistent, sometimes they are not getting the documentation.

In addition to the results from REAC, they are not ensuring that self-inspections take place. That is a very important thing that we have in place because REAC only does a percentage or a sample of units.

Mr. LAWLER. Are there any consequences when they are not meeting the 24-hour requirement?

Ms. OLIVER DAVIS. That is a good question. I would need to look into what consequences.

Of course HUD always has the ability to hold them accountable. In this space we have difficulties because we, again, to your point about the housing crisis, we only have some units that are available.

I think often HUD is reluctant sometimes to hold people accountable because they do not have other places to put people.

We also have instances where we just do not have the capacity. We see capacity issues in that way as well. We see inconsistencies in the field holding PHAs accountable.

Mr. LAWLER. In terms of field, I mean, has HUD's field staff monitored PHA's self-inspection requirements? Are people going in and doing monitoring in the field?

Ms. OLIVER DAVIS. I do not know if they are actually going in person. There is some monitoring that is taking place but it is inconsistent. That is why we are calling for a nationwide inspection standard and that is why I think the NSPIRE rule could be helpful, but we need to see how it is going to perform.

Mr. LAWLER. Thank you for your work.

I yield back.

Chairman DAVIDSON. I thank the gentleman from New York.

The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman.

I want to thank both of the witnesses for being here today.

Inspector General Tomney, you may be aware that earlier this year the White House directed FHFA to revive a pilot program relating to title insurance waivers.

While I hold concerns with the end goals of the pilot program itself, I hold even deeper concerns as to how Doma Holdings, the chosen vendor for the program, obtained this contract.

To recap, when FHFA was considering this pilot last year Doma was on the brink of bankruptcy and faced potential delisting from the New York Stock Exchange. Furthermore, the company's technology is not innovative and ranks low within the industry.

The only distinguishing feature of Doma appears to be its political connections, notably with former Treasury Secretary Larry Summers serving on its board and being a shareholder.

Despite Director Thompson's recent claim that no vendors have been chosen for the pilot program, my office has reviewed documents shared with mortgage lenders by Fannie Mae which explicitly named Doma Holdings as the vendor for their new title waiver pilot program.

I am happy to provide these documents to you and your staff if you are unaware of their existence.

Credit is due to Director Thompson. When I inquired about this questionable arrangement last summer, she testified that a partnership between Fannie Mae and Doma, quote, does not sound safe or sound, end quote.

Shortly after our hearing, she contacted the CEO of Fannie Mae and instructed her to suspend the pilot program because of the hearing. Months later, that decision was overridden by the White House.

So, Mr. Tomney, this is my question. As the FHFA's Inspector General, I urge you to investigate what led this pilot program to be revived despite FHFA's objections just last year. The public deserves to know who at the White House directed FHFA to revive this program and whether Larry Summers communicated with administration officials.

The question is, are you currently investigating this and if not, will you commit to doing so?

Mr. TOMNEY. I would certainly welcome you sharing that information with my staff.

As I have mentioned a short time ago, we are currently planning our future products. To the extent that there would be any open investigations, it is nothing that I would be able to speak to in this setting.

I welcome you and your staff to provide that information to mine. I appreciate it.

Mr. TIMMONS. We will get you those documents.

One more point. Additionally, a recent Politico article reported irregularities in Doma's stock price immediately prior to President Biden's announcement of the title insurance waiver program during his State of the Union address.

While I am confident that the Securities and Exchange Commission (SEC) is examining this apparent insider trading, is the FHFA investigating whether nonpublic information was shared with Mr. Summers or other members of the Doma board?

Mr. TOMNEY. Again, I do not have any information on that. Again, I welcome you sharing anything with my staff.

Mr. TIMMONS. Thank you.

This is just really troubling. I mean, we will get you the Politico article and you can see how the stock price jumped right before the announcement. The speech was not yet made public. The speech was clearly shared within somebody within the administration, with the public. That was then traded on. It is a huge violation of trust, a huge violation of law.

What is even worse, in my opinion, is that this program should not exist. Like, we will not even talk about the merits of the program but the fact that the Biden Administration is clearly doing the bidding of political insiders is what causes the American people to not have trust in our institutions.

We have to hold these people accountable. We have to earn their trust and this does not earn their trust, it does not earn my trust. So I appreciate you looking into it.

There is not a question about whether the law was broken. It does not take a person that prosecuted white collar cases for 5 years, like myself, to look at the Politico article and look at the clear undue influence that has been clearly—I mean, it is shocking that we have not done anything else.

So I ask you to look into this. I ask you to help restore the American people's trust in our institutions. I will get you all of this information and thank you again.

Mr. Chairman, I yield back.

Chairman DAVIDSON. Thank you, Mr. Timmons.

I would like to thank our witnesses for your testimony today.

Without objection, I would like to enter the following documents into the record, as noted by a handful of people who made such motions.

Chairman DAVIDSON. Without objection, all members will have five legislative days within which to submit additional written questions for the witnesses to the chairman, which will be forwarded to the witnesses for their response.

I ask our witnesses to please respond as promptly as you are able to those questions you could not finish or those submitted afterwards.

[The information referred to can be found in the appendix.]

So the hearing is now adjourned.

[Whereupon, at 12:03 p.m., the subcommittee was adjourned.]

A P P E N D I X

June 26, 2024



**Written Response of Inspector General Rae Oliver Davis,
U.S. Department of Housing and Urban Development**

To Questions for the Record

The Subcommittee on Housing and Insurance of the House Committee on
Financial Services, U.S. House of Representatives, June 26, 2024

Hearing Titled:

“Housing Oversight: Testimony of the HUD and FHFA Inspector General”

Questions from Chairman Warren Davidson

1. Investigation and Reporting

Question: Referencing the Office of Public and Indian Housing (PIH) memo dated February 9, 2022, what specific steps has your office taken to investigate the use of Section 8 funds for voter registration activities? Please provide any reports or findings from these investigations, including any documented instances of improper use of funds.

Answer: The HUD Office of Inspector General places a significant emphasis on oversight designed to identify how HUD programs and operations can more effectively identify and remediate improper payments in HUD’s public housing program, including instances of fraud.

It is our office’s longstanding policy and practice not to comment publicly about ongoing criminal investigations, or to confirm or deny their existence. This policy is consistent with Department of Justice policy and practice, as it ensures the integrity of ongoing investigations into allegations that have not yet been substantiated or charged publicly. This protects the confidentiality of those involved and complies with federal requirements that matters occurring before a grand jury remain secret.

A review of our closed case files for the years 2014-present did not yield instances where we substantiated that Section 8 funds were used improperly for voter registration activities. OIG identified five closed cases related to allegations of vote-buying schemes involving HUD funds or HUD-assisted tenants. One of the cases resulted in the 2019 conviction of several individuals who promoted a voter bribery scheme in two city elections, including inducing voters to vote for a specific candidate and to

vote for a rent control referendum that the candidate supported.¹ We note that Section 8 funds were not used in furtherance of the scheme that was the basis of the criminal charges and conviction.

2. Documentation and Evidence

Question: Can you provide detailed documentation or evidence of any instances where Section 8 funds were used improperly for voter registration activities as permitted by the February 9, 2022, PIH Memo? If such instances were found, what corrective actions were taken, and what were the outcomes of those actions?

Answer: We searched our closed case files for documentation or evidence specific to the improper use of Section 8 funds for voter registration activities and did not find information responsive to this request.

3. Engagement with Congress

Question: How does your office plan to engage with our office and other members of Congress to ensure transparency and accountability in the use of Section 8 funds for the activities described in the February 9, 2022, PIH Memo? Are there scheduled regular updates or briefings planned, and how can we facilitate ongoing communication?

Answer: Our office welcomes ongoing communication and engagement with Congress about matters that are important to members and committees, including this topic. I welcome further discussion with you, your staff, and this Subcommittee about your concerns on this topic.

More generally, OIG has several resources by which we keep Congress and the public informed about our oversight. OIG posts all of our audit and evaluation work to our public website when such work is initiated², posts those reports to our website when completed³, tracks HUD's progress in closing OIG recommendations through our innovative Open Recommendation Dashboard⁴, and provides updates on our investigative outcomes through press releases and otherwise on our website⁵. HUD OIG also provides committees of jurisdiction with copies of our reports with recommendations within 3 days of issuance as required by the Inspector General Act of 1978, as amended, and produces a semiannual report to Congress on the significant efforts of OIG for the relevant semiannual period.

4. Compliance with Federal Guidelines

Question: What mechanisms are in place to ensure that PHAs are complying with federal guidelines and not using Section 8 funds for partisan political purposes as outlined in the February 9, 2022, PIH Memo?

¹ Available at: <https://www.justice.gov/usao-nj/pr/hoboken-new-jersey-man-admits-promoting-voter-bribery-scheme>

² Available at: <https://www.hudoig.gov/library/ongoing-work>.

³ Available at: <https://www.hudoig.gov/library/audits-evaluations>.

⁴ Available at: <https://www.hudoig.gov/open-recommendation/search>.

⁵ Available at: <https://www.hudoig.gov/news-congressional/press-releases>.



Please provide details on any monitoring or audit processes that have been implemented, including any specific compliance checks or controls.

Answer: In the PIH notice referenced in the question, PHAs have been informed about the appropriate use of Section 8 funding with respect to partisan political purposes. We are aware of general internal controls HUD has in place to monitor the eligibility of expenditures, such as PIH compliance reviews, but HUD is in the best position to speak to specific compliance checks or controls that examine the specific use of Section 8 funding for improper partisan political purposes.

5. Impact Analysis

Question: Has there been a comprehensive analysis conducted on the impact of using Section 8 funds for voter registration activities on the availability and quality of housing services? If such an analysis exists, please provide a copy. If not, are there plans to conduct such an analysis, and what is the timeline for its completion?

Answer: To date, HUD OIG has not conducted an analysis on the impact of Section 8 funds for voter registration activities on the availability of and quality of housing services.

Regarding future plans for such an analysis, we assess risk in HUD's portfolio on a continuous basis as we strive to conduct timely, risk-based, data-driven oversight of the use of HUD funds. At this time, we have no upcoming audits or reviews currently planned on this topic. We welcome further discussions with you and your staff so that we can better understand your perspectives on this topic as we consider future work planning strategies.

6. Training and Guidance

Question: What specific training or guidance has HUD provided to PHAs regarding the permissible and impermissible use of Section 8 funds for voter registration activities as stated in the February 9, 2022, PIH Memo? How does your office ensure that this guidance is being consistently followed by PHAs nationwide?

Answer: Regarding training provided to PHAs on the proper use of Section 8 funds for voter registration activities, OIG has not reviewed the specific training, if any, that HUD has administered to PHAs regarding compliance with its February 9, 2022, memorandum. The Department may be able to provide more information on this topic.

7. Feedback from PHAs

Question: Have any PHAs reported challenges, concerns, or confusion regarding the guidance on voter registration activities provided in the February 9, 2022, PIH Memo? If so, how has HUD addressed these concerns, and what role has your office played in resolving these issues? Please provide any related correspondence or records of these interactions.

Answer: HUD OIG is not aware of any reported challenges, concerns, or confusion by PHAs in regard to the guidance in the February 9, 2022, PIH memo.



8. Audit Results

Question: Can you provide the detailed results of any audits conducted by your office on the use of Section 8 funds for voter registration activities since the issuance of the February 9, 2022, PIH Memo? How many audits have been conducted, what were the key findings, and what follow-up actions were taken based on these findings?

Answer: HUD OIG has not conducted any audits specifically on the use of Section 8 funds for voter registration activities since the issuance of the February 9, 2022, PIH memo.

9. Future Oversight Plans

Question: What are your office's future plans for overseeing the use of Section 8 funds to ensure they are not being used for improper purposes, in light of the activities permitted by the February 9, 2022, PIH Memo? Please outline any upcoming audits, reviews, or other oversight activities that are planned, including the expected timelines and focus areas.

Answer: As discussed in the response to question 6 above, at this time, we have no upcoming audits or reviews currently planned on this specific topic. We welcome further discussions with you and your staff so that we can better understand your perspectives on this topic as we consider future work.

10. Interactions with Local Public Housing Authorities

Question: Can you provide any known Memoranda of Understanding (MOUs) between HUD and local PHAs or any Secretaries of State?

Answer: HUD is in the best position to respond to this question, as it maintains and controls its MOUs and other agreements that might be responsive.

Questions from Representative Scott Fitzgerald

1. Many lenders have stated that the cost and complexity of servicing an FHA loan is significantly more compared to a Fannie Mae or Freddie Mac loan. Does it make sense for HUD to consider reforming FHA's servicing to fall more in line with the GSEs' model for servicing?

Answer: Our office is aware of industry concerns about the cost and complexity of HUD's FHA servicing model, but we have not specifically recommended that FHA consider aligning its program to the GSE model. Ultimately, reforming FHA's servicing model is a policy decision for Congress and HUD.

Our office has commented extensively on the challenges that HUD faces in managing counterparty risk in our HUD's FY 2024 Top Management Challenges⁶ report, and our strategy for oversight in this space has been focused on areas of greatest risk in FHA's programs. We seek to help HUD find ways that FHA can more efficiently and effectively manage its programs, including through strengthening controls

⁶ Available at: <https://www.hudojg.gov/library/top-management-challenges>.



around origination and ensuring lenders service loans correctly to mitigate losses to HUD's insurance fund.

HUD OIG welcomes input from members of Congress about how our oversight toolkit can best improve the efficiency of HUD's programs and will follow-up with your staff about specific areas you believe OIG oversight can have a beneficial impact.

2. We have a situation where many young adults can't afford a downpayment on a home. HUD offers low downpayment programs. What are the shortcomings of these programs and why are they not able to reach more people?

Answer: HUD has several programs where down payment assistance (DPA) is an eligible use of funding, one of which is the HOME Investment Partnership Program (HOME). HOME provides formula grants to states and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. HOME funds are awarded annually as formula grants to participating jurisdictions.

In general, grants management is an essential component of HUD's business but presents many challenges. HUD's grant portfolio includes a diverse range of programs that contribute to HUD's strategic goals, including but not limited to affordable housing. These funds are distributed to a wide variety of public and private grantees, who in turn distribute funds to subrecipients and contractors. This structure often makes oversight a challenge for HUD.

HUD OIG identified grants management as a Top Management Challenge for FY 2024. Like other grant-making agencies, HUD continues to face challenges in developing and implementing adequate policies, procedures, and other controls to oversee grantees' compliance, performance, and effectiveness. These challenges span the entire grant-making life cycle and include HUD's oversight of grantees as well as grantees' and subrecipients' internal controls and reporting. While not exclusive to the HOME program, these challenges can affect how effectively programs like HOME reach intended beneficiaries.

3. Another major issue is builders aren't incentivized to create enough starter homes or entry level homes for younger generations to begin to build wealth. What is HUD's role in encouraging more entry-level housing, or what can it do to better maintain its existing supply?

Answer: As mentioned above, the HOME program, among other things, assists individuals with building and buying affordable housing. In fact, HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The U.S. Government Accountability Office (GAO) has reported on another key HUD program designed to spur housing production. In August of 2023, GAO issued a report⁷ discussing how HUD can improve in its oversight of the Housing Trust Fund (HTF). HTF is designed to preserve and increase the supply of

⁷ Available at: <https://www.gao.gov/products/gao-23-105370>.

affordable housing units. In its report, GAO made five recommendations to HUD, one of which is for HUD to develop and implement a centralized process to monitor HTF grantees' compliance with the requirement to enter completion information within 120 days of the final project drawdown and provide additional information to grantees about this requirement. GAO also recommended HUD communicate the cost certification requirement to grantees, schedule and conduct a fraud risk assessment, and disclose limitations in external reports. HUD agreed with the recommendations and outlined planned actions to address them.

Questions from Ranking Member Maxine Waters

1. Under the Hatch Act, non-partisan voter registration and participation efforts in public and HUD-subsidized housing are legally permitted. Given the 15% gap between renters and homeowners who are registered to vote and a 21% gap between renter and homeowner voter turnout, what are the HUD and FHFA OIGs doing, respectively, to ensure illegal voter suppression tactics are not being deployed in HUD-assisted housing or housing financed with federally-backed mortgage loans?
 - a. Over the last decade, how many complaints have your respective offices received regarding potential Hatch Act violations? Please include how the complaint was resolved, including whether your office conducted an investigation.

Answer: The Office of Special Counsel (OSC) has exclusive jurisdiction to investigate or review allegations of misconduct that may constitute a violation of the Hatch Act. Thus, our office does not investigate conduct that implicates the Hatch Act and refers all complaints of potential Hatch Act violations to OSC.

However, HUD OIG does investigate whether conduct by HUD employees implicates violations of ethics statutes and regulations, and coordinates those investigations with OSC when the alleged conduct also contains allegations implicating the Hatch Act.

We have publicly released a report of investigation in 2021 that involved such allegations against a then-Regional HUD Administrator for New York and New Jersey.⁸ HUD OIG coordinated with OSC while we conducted our investigation independently. On April 6, 2021, OSC reached a settlement⁹ with the subject, who agreed to a 48-month debarment from federal employment and a \$1,000 fine for actions in contravention of the Hatch Act.

2. Under Section 214 of the Housing and Community Development Act of 1974, which immigrants are eligible for assistance under HUD-assisted programs? What share of HUD-assisted households are U.S. citizens? a. Over the last decade, how many complaints has the HUD OIG received regarding violations of Section 214 of the Housing and Community Development Act of 1974? Please include how the complaint was resolved, including whether your office conducted an investigation.

⁸ Available at: <https://hudoig.gov/reports-publications/report/investigation-alleged-ethics-violations-lynn-patton-former-regional>

⁹ Available at: <https://osc.gov/News/Pages/20-15-HUD-Hatch-Act-Discipline.aspx>.



Answer: We provide below a general description of our understanding of eligibility requirements responsive to your question. However, we note that HUD is in the best position to respond with its official position on eligibility in the many programs for which individuals may receive assistance.

Noncitizen eligibility for federal housing programs varies based on the housing program, the laws and regulations that govern them, the agency that administers them, the immigration status of a noncitizen and the composition of the noncitizen's household.

HUD has issued regulations implementing Section 214 of the Housing and Community Development Act of 1980 (24 CFR Part 5, Subpart E) outlining relevant eligibility requirements. HUD has programs that are also subject to Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which generally makes all noncitizens, except those deemed qualified aliens, ineligible for federal public benefits. Given the nuances of how these statutes apply to the varied HUD programs, the Department is in the best position to describe the nuances of which categories of noncitizens are eligible under its programs and under which circumstances.

Generally, in the case of most HUD rental assistance programs, including Public Housing, Housing Choice Vouchers, and Section 8 Project-Based Rental Assistance, most noncitizens with permanent status are eligible for assistance, whereas temporary and unauthorized immigrants are ineligible. Mixed-status families (those comprised of both eligible and ineligible members) may receive varying levels of benefits depending on the program. Regarding most federal grant-funded and other housing assistance programs (including HUD homeless assistance), federal regulations do not require the verification of recipients' immigration status. With federally guaranteed single-family mortgage programs, noncitizen eligibility varies based on agency guidance.

HUD OIG has not received hotline complaints specifically referencing Section 214 of the Housing and Community Development Act of 1974. However, from October 1, 2020, to present, OIG received approximately six hotline complaints with allegations that entities or individuals provided improper housing assistance to individuals whose immigration status made them ineligible for such assistance. The receipt of a complaint does not necessarily mean that criminal, civil, or administrative misconduct has been committed. All six of the allegations were referred to the relevant HUD program office for action consistent with their programmatic responsibilities.

Subcommittee on Housing and Insurance
“Housing Oversight: Testimony of the HUD and FHFA Inspectors General”
June 26, 2024
Questions for the Record Responses of FHFA Inspector General Brian M. Tomney

Representative French Hill

You are well aware that FHFA finalized the Prior Approval of Enterprise Products in late 2022 and made it operational in April 2023. Since that time, only one activity has been deemed to be appropriate for submission and review (the Freddie Mac Closed End Second Lien pilot). The FHFA Annual Report released two weeks ago stated that there have been 10 overall activities that fall into the category of review, but that only three activities may be subject to the new public notice and comment process.

FHFA can differentiate and waive the public notice and comment process if they deem a new activity, product or program is substantially similar to an existing activity. In that case, the regulator can deem an activity as a “waiver” of existing underwriting guidelines and move forward. An example of this is the recent FNM proposed title insurance waiver.

- 1. Have you been focused on this process, the filter used by FHFA, and the expansive reach of the GSEs to enter sectors already well served by private markets?*

I am aware of these developments, and my staff and I are observing them carefully. We have not done any report work on this topic, though we have begun our annual risk assessment process to plan for future engagements.

Representative Brad Sherman

1. *During your review of FHFA's examination practices related to Federal Home Loan Banks, have you seen instances where the Agency has provided guidance on policy priorities or expectations through the supervisory process that could benefit from additional public or congressional input?*

To date, our reports related to Federal Home Loan Bank examination practices have not contained a recommendation that FHFA seek additional public or congressional input on policy priorities or supervisory expectations.

2. *How (if at all) does the FHFA use its nonobjection authority to influence FHLBanks' decision making? Have you seen instances where the nonobjection process was applied that could benefit from additional public or congressional input?*

We have not done any report work on this topic, though we have begun our annual risk assessment process to plan for future engagements.

Representative Scott Fitzgerald

1. *[To Mr. Tomney]: The FHFA just last week approved a proposal for Freddie Mac to begin purchasing closed-end second mortgages. Given that there is already a robust private market for this product, how does this proposal directly advance Freddie Mac's mission?*

The program was proposed by Freddie Mac and approved by FHFA, so I will defer to FHFA Director Thompson and Freddie Mac officials to advocate for how it will advance the Enterprise's mission.

2. *[To Mr. Tomney]: Since the FHFA has approved the Freddie Mac pilot program for closed-end second mortgages, has the agency identified natural market barriers or inefficiencies in the current offerings of closed-end second mortgages by the private market? If so, what are they, and how does the proposal seek to overcome those obstacles or inefficiencies?*

The program was proposed by Freddie Mac and approved by FHFA, so I will defer to FHFA Director Thompson and Freddie Mac officials to identify and explain any obstacles or inefficiencies the program will overcome.

3. *[To Mr. Tomney]: We often see pilot programs become permanent. What metrics would you like Freddie Mac to show in determining whether to continue the pilot program to purchase closed-end second mortgages once the duration term of 18 months has expired?*

The pilot was approved by FHFA Director Thompson, so she would be the one to consider any extension or modification request or to determine whether to make it permanent. I will defer to her to describe the metrics she would consider.

Ranking Member Maxine Waters

1. *Under the Hatch Act, non-partisan voter registration and participation efforts in public and HUD-subsidized housing are legally permitted. Given the 15% gap between renters and homeowners who are registered to vote and a 21% gap between renter and homeowner voter turnout, what are the HUD and FHFA OIGs doing, respectively, to ensure illegal voter suppression tactics are not being deployed in HUD-assisted housing or housing financed with federally-backed mortgage loans?*
- a. *Over the last decade, how many complaints have your respective offices received regarding potential Hatch Act violations? Please include how the complaint was resolved, including whether your office conducted an investigation.*

Over the last decade, FHFA-OIG has not received any complaints about voting and Hatch Act violations. Should we receive any such complaints, we would take them seriously and take appropriate action.

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.....
 (Original Signature of Member)

118TH CONGRESS
 2D SESSION

H. J. RES. _____

Providing for congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Department of Housing and Urban Development and the Department of Agriculture relating to the “adoption of energy efficiency standards for new construction of HUD- and USDA-financed housing”.

IN THE HOUSE OF REPRESENTATIVES

Mr. DAVIDSON introduced the following joint resolution; which was referred to the Committee on _____

JOINT RESOLUTION

Providing for congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Department of Housing and Urban Development and the Department of Agriculture relating to the “adoption of energy efficiency standards for new construction of HUD- and USDA-financed housing”.

- 1 *Resolved by the Senate and House of Representatives*
- 2 *of the United States of America in Congress assembled,*
- 3 That Congress disapproves the rule submitted by the De-
- 4 partment of Housing and Urban Development and the De-

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2

1 partment of Agriculture relating to the “adoption of en-
2 ergy efficiency standards for new construction of HUD-
3 and USDA-financed housing” (89 Fed. Reg. 33112 (May
4 28, 2024)), and such rule shall have no force or effect.



I

118TH CONGRESS
2D SESSION**H. R. 7302**

To require the Secretary of Housing and Urban Development to require public housing agencies to disclose contracts entered into, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 7, 2024

Mr. TORRES of New York introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To require the Secretary of Housing and Urban Development to require public housing agencies to disclose contracts entered into, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Contracting Account-
5 ability and Transparency Act” or the “CAT Act”.

6 **SEC. 2. DISCLOSURE REQUIRED.**

7 The Secretary of Housing and Urban Development
8 shall, not later than 1 year after the date of the enactment
9 of this Act, require each public housing agencies to pub-

1 liely disclose, on the website of the public housing agency,
2 with respect to each contract entered into by such public
3 housing agency the following information—

4 (1) all material information about the contract,
5 including the goods and service provided;

6 (2) the vendor;

7 (3) the date of the solicitation of the contract;

8 (4) the bids and quotes solicited; and

9 (5) and the official who solicited the contract.

○

[DISCUSSION DRAFT]118TH CONGRESS
2D SESSION**H. R.** _____

To provide for oversight of the Neighborhood Reinvestment Corporation by the Inspector General of the Department of Housing and Urban Development, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To provide for oversight of the Neighborhood Reinvestment Corporation by the Inspector General of the Department of Housing and Urban Development, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “NeighborWorks Trans-
5 parency and Accountability Act of 2024”.

1 **SEC. 2. NEIGHBORHOOD REINVESTMENT CORPORATION**
2 **OVERSIGHT.**

3 (a) INSPECTOR GENERAL.—The Neighborhood Rein-
4 vestment Corporation Act (42 U.S.C. 8101 et seq.) is
5 amended by adding at the end the following:

6 **“SEC. 609. OVERSIGHT BY INSPECTOR GENERAL OF THE**
7 **DEPARTMENT OF HOUSING AND URBAN DE-**
8 **VELOPMENT.**

9 “The Inspector General of the Department of Hous-
10 ing and Urban Development shall have all of the authori-
11 ties and responsibilities provided under chapter 4 of title
12 5, United States Code, with respect to the corporation,
13 as if the corporation were part of the Department of
14 Housing and Urban Development.”.

15 (b) WHISTLEBLOWER PROTECTIONS.—Section
16 9101(3) of title 31, United States Code, is amended by
17 adding at the end the following:

18 “(q) the Neighborhood Reinvestment Cor-
19 poration.”.

[DISCUSSION DRAFT]118TH CONGRESS
2D SESSION**H. R.** _____

To enhance the oversight authorities of certain Inspectors General, and for
other purposes.

IN THE HOUSE OF REPRESENTATIVES

M. _____ introduced the following bill; which was referred to the
Committee on _____

A BILL

To enhance the oversight authorities of certain Inspectors
General, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “_____ Act
5 of 2024”.

6 **SEC. 2. INSPECTOR GENERAL TESTIMONIAL SUBPOENA AU-**
7 **THORITY.**

8 (a) IN GENERAL.—

1 (1) AUTHORITY.—In addition to the authority
2 otherwise provided by the Inspector General Act of
3 1978 (5 U.S.C. App.), a covered Inspector General
4 (as such term is defined in section 3) may require
5 by subpoena the attendance and testimony of wit-
6 nesses as necessary in the performance of the func-
7 tions assigned to the Inspector General by the In-
8 spector General Act of 1978 (5 U.S.C. App.), which
9 in the case of contumacy or refusal to obey, such
10 subpoena shall be enforceable by order of any appro-
11 priate district court of the United States.

12 (2) LIMITATION.—A covered Inspector General
13 may not require by subpoena the attendance and
14 testimony under paragraph (1) of any current Fed-
15 eral employee.

16 (b) PROHIBITION OF DELEGATION.—The authority
17 to issue a subpoena under subsection (a) may not be dele-
18 gated.

19 (c) ISSUANCE.—

20 (1) NOTIFICATION.—The covered Inspector
21 General shall notify the Attorney General of the in-
22 tent to issue a subpoena under subsection (a).

23 (2) OBJECTION.—Not later than 10 days after
24 the date on which the Attorney General is notified
25 pursuant to paragraph (1), the Attorney General

1 may object in writing to the issuance of the sub-
2 poena if the subpoena will interfere with an ongoing
3 investigation and, if the Attorney General makes
4 such an objection, the covered Inspector General
5 may not issue the subpoena.

6 (3) NO OBJECTION.—If the Attorney General
7 does not object in writing to the issuance of the sub-
8 poena during the 10-day period described in para-
9 graph (2), the covered Inspector General may issue
10 the subpoena.

11 (d) WITNESSES.—

12 (1) NOTIFICATION; TESTIMONY.—Before re-
13 quiring by subpoena under subsection (a) the at-
14 tendance and testimony of a witness, the covered In-
15 spector General shall, to the degree practicable—

16 (A) notify the witness of the intent of the
17 covered Inspector General to issue the sub-
18 poena; and

19 (B) provide the witness an opportunity to
20 attend and testify voluntarily.

21 (2) TRAVEL.—Whenever requiring by subpoena
22 under subsection (a) the attendance and testimony
23 of a witness, the covered Inspector General shall, to
24 the greatest extent practicable, travel to residence of
25 the witness, the principal place of business of the

1 witness, or other similar location that is in proximity
2 to the residence of the witness.

3 (e) REPORTS.—

4 (1) SEMIANNUAL REPORTS.—Along with each
5 semiannual report submitted by a covered Inspector
6 General pursuant to section 405(b) of title 5, United
7 States Code, the covered Inspector General shall in-
8 clude a report on the exercise of the authority pro-
9 vided by subsection (a).

10 (2) CONTENTS.—Each report submitted under
11 paragraph (1) shall include, for the most recently
12 completed six-month period, the following:

13 (A) The number of testimonial subpoenas
14 issued and the number of individuals inter-
15 viewed pursuant to such subpoenas.

16 (B) The number of proposed testimonial
17 subpoenas with respect to which the Attorney
18 General objected under subsection (c)(2).

19 (C) A discussion of any challenges or con-
20 cerns that the covered Inspector General has
21 encountered exercising the authority provided
22 by subsection (a).

23 (D) Such other matters as the covered In-
24 spector General considers appropriate.

1 **SEC. 3. DEFINITION.**

2 For purposes of this Act, the term “covered Inspector
3 General” means—

4 (1) the Inspector General of the Department of
5 Housing and Urban Development; and

6 (2) the Inspector General of the Federal Hous-
7 ing Finance Agency.

