



OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

September 30, 2026

The Honorable Rand Paul
Chairman
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, D.C. 20510

The Honorable Gary Peters
Ranking Member
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, D.C. 20510

The Honorable Tim Scott
Chairman
Senate Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Elizabeth Warren
Ranking Member
Senate Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable James Comer
Chairman
Committee on Oversight and Government
Reform
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Robert Garcia
Ranking Member
Committee on Oversight and Government
Reform
U.S. House of Representatives
Washington, D.C. 20515

The Honorable French Hill
Chairman
U.S. House Committee on Financial
Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
U.S. House Committee on Financial
Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

I am the Acting Principal Deputy Inspector General, Performing the Duties of the Inspector General, for the Federal Housing Finance Agency (FHFA or Agency), Office of Inspector General (OIG). Consistent with the provisions of Sections 604(C)(3) and 604(g)(3)(E) of the IG Act, I am writing to advise each of your Committees that the level of Fiscal Year (FY) 2027 funding FHFA has allocated to OIG for operations is insufficient to support the effective execution of oversight and investigative duties of our office. In my judgment, this constitutes an unreasonable refusal to provide necessary resources to an Inspector General.

With respect to budget for an Inspector General's office, Section 604(g)(E) requires that the budget the President submits to Congress include any comments of an "affected" Inspector General if the Inspector General concludes that proposed funding level would "substantially inhibit" the Inspector General from performing the duties of the office. On April 2, 2026, the President submitted his proposed FY 2027 budget to Congress; that budget included an estimated funding level for OIG of \$55 million, an amount sufficient to fund the effective execution of our duties. Consequently, OIG did not provide a statement for inclusion in the budget regarding its sufficiency. On August 31, 2026, however, the Agency advised me for the first time that it had decided to dramatically reduce the funding level set forth in the President's budget. By this letter, I am providing the comments I would have provided if the President's FY 2027 budget had included funding at the level that FHFA ultimately allocated to OIG.

I have carefully reviewed the budgetary requirements of our office and concluded that FHFA's allocated funding level for OIG operations in FY 2027, a total of \$20 million, will substantially inhibit our ability to conduct independent, objective, and effective audits, reviews, and assessments of the Agency's programs and operations and criminal investigations. Funding at \$20 million represents a 63.6% reduction from the FY 2027 Budget submitted by the President to Congress; a 61.3% reduction from our FY 2026 operating budget, and a 60% reduction from the final funding request we submitted to FHFA for our FY 2027 budget. We will be forced to reduce staffing by approximately 70-80% in FY 2027, which will result in the discontinuance of essentially all criminal investigations conducted by our Office of Investigations. Simply stated, funding at the \$20 million level will eliminate our capacity to effectively conduct criminal investigation of mortgage, bank, and other fraud schemes involving the entities FHFA regulates – the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), U.S. Financial Technology, LLC (U.S. FinTech), and the 11 Federal Home Loan Banks (FHLBs) (hereafter, the "regulated entities").

Background

Neither FHFA nor OIG are funded through the appropriations process. Instead, pursuant to the Housing and Economic Recovery Act of 2008 (HERA), FHFA and OIG are funded through assessments collected from the regulated entities.¹ Since the establishment of OIG in FY 2011, OIG has provided FHFA with an annual request for funding for inclusion in the assessments levied on the regulated entities. Prior to FY 2027, without exception, FHFA included OIG's requested amount in the assessments and timely transferred OIG's share of the assessments to fund our operations.²

OIG's process for determining the appropriate level of funding for operations, which differs from the budget methodology of most other OIGs, has also remained consistent since our inception, as has Congressional and Office of Management and Budget (OMB) concurrence with that

¹ See 12 U.S.C. Section 4516.

² FHFA collects the assessments in two equal increments, once in October of the FY and once in April; FHFA has provided OIG its requested allocation on the same schedule.

methodology.³ OIG's budget determination process directly derives from the unique mission and authorities of FHFA. Fannie Mae and Freddie Mac (collectively, the Government Sponsored Entities or GSEs) have a combined asset total exceeding \$7.8 trillion and OIG is the primary law enforcement entity responsible for ensuring that mortgage fraud in this market is investigated and prosecuted. Moreover, FHFA functions as both the regulator and, since September of 2008, the conservator of the GSEs. FHFA's conservatorship authority over the GSEs is essentially unlimited. That is, it has complete control of their assets and exercises all the powers of their shareholders, directors, and officers. The conservatorship authority is unique among all federal regulatory agencies.

Taking into account FHFA's distinct and extensive conservatorship authority, and the enormous risks to the U.S. financial system inherent in the operations of the regulated entities, OIG's benchmark for staffing and funding is not, as is the case with most federal OIGs, based on a ratio to the staffing and budget of the parent establishment, FHFA. Since its inception, OIG's formula for budgeting and staffing has taken into consideration the operational budgets and staffing of FHFA, plus the GSEs, and 11 FHLBs as the potential victims of mortgage fraud. (See Attachment A, OIG email dated August 21, 2021, detailing the OIG's budget formulation process for the Government Accountability Office). Historically, we applied a budget formulation of approximately 1% of the combined operating budgets and staffing of those entities, together with FHFA. As the regulated entities have recovered from the financial crisis, and have extensively expanded in recent years, the actual ratio of OIG's budget to that benchmark has fallen substantially below 1% without having a significant adverse effect on our operational capacity. The resulting funding levels that OIG has requested and received since 2011 reflect consistency in our operations, has fostered effective oversight, and has supported the investigative capacity necessary to detect, deter, and prosecute fraud in the GSE and FHLBs' share of the massive mortgage marketplace. These levels were:

- FY 2012 through 2015: \$48 million
- FY 2016 through 2022: \$49.9 million
- FY 2023: \$55 million
- FY 2024: \$57 million
- FY 2025: \$58.5 million
- FY 2026: \$51.7 million

OIG's Budget Formula is Essential to Ensuring Criminal Investigative Capacity

A budget formulation model that takes into account the operations of the regulated entities is the means by which OIG has been able to maintain the audit capacity necessary to fulfil our statutory obligations while also supporting a national criminal mortgage fraud enforcement program – a capacity which distinguishes FHFA-OIG from other OIGs whose parent agencies approximate

³ As is further explained below, until August 31, 2026, the Agency also concurred with (or at least did not object to) that methodology.

the size and funding of FHFA. OIG has maintained a highly trained and skilled cadre of financial crimes special agents (series 1811) and analysts to detect, investigate, and refer for prosecution mortgage fraud and other crimes involving the regulated entities. We also have maintained a small but highly qualified cadre of investigative counsel with extensive federal prosecution experience who serve as Special Assistant United States Attorneys (SAUSAs) to prosecute cases developed by our agents and partner agencies. In recent years, our special agent cadre has numbered around 40 agents, who are primarily deployed to field offices across the country, complemented by three SAUSAs. Our criminal enforcement program has been highly effective, resulting in more than 1,270 convictions and nearly \$75 billion in monetary results since 2011.

If OIG had utilized a traditional OIG-to-parent-establishment ratio for budget formulation, it would have been unable to establish and sustain this criminal investigative capacity; instead, our investigative capacity would have been limited to 2-3 personnel focused exclusively on misconduct within the Agency, such as time-card fraud. As our budget history reflects, that is not the structure Congress and the Executive branch intended for FHFA-OIG. Moreover, until August 31, 2026, when I first received notice from FHFA that the Agency was reducing OIG's FY 2027 funding to \$20 million, I had no reason to expect such a sudden and dramatic budget reduction.

FHFA's Response to OIG's FY 2027 Budget Request

The funding request OIG originally submitted to FHFA for FY 2027 was directly benchmarked to the President's budget and was specifically formulated to enhance our criminal enforcement and fraud detection capacity, strengthening our ability to support the President's key national priority of "combating the rampant and pervasive problem of fraud in the United States." (*President's Fiscal Year 2027 Topline* at page 3, issued April 3, 2026). Per established protocol, OIG submitted its original request for funding to FHFA on July 31, 2026. That original request was for \$57.6 million.⁴ FHFA provided no indication it was not accepting that funding request until August 31, 2026, a full month later. On August 31, 2026, I received a letter from the FHFA General Counsel advising me that FHFA planned to allocate "no more than \$20 million for [OIG's] FY 2027 budget. That figure is not an approved amount, an entitlement, or a floor. Instead, it is a maximum planning ceiling."

Following receipt of the General Counsel's letter, I engaged in extensive dialogue with him regarding the level of funding that I had determined, in my capacity as the senior agency official performing the duties of the Inspector General, was the minimum required for OIG to effectively carry out the oversight and investigative duties of the office.

⁴ The amount above the President's estimated \$55 million funding for OIG was primarily to hire additional personnel to support the national priority of combatting fraud, including support for the newly formed National Fraud Enforcement Division at the Department of Justice, which was created to support the White House Task Force to Eliminate Fraud, chaired by the Vice President.

The dialogue included my submission of a letter to the General Counsel on September 11, 2026, responding to the concerns set forth in the August 31st letter and with an accompanying, detailed budget justification. In my letter and the corresponding budget justification submission, I reduced our FY 2027 funding request to \$49.9 million, the level of funding OIG had received from FY 2016 to 2022 and a reduction of 3.5% from our FY 2026 funding.⁵

On September 21, 2026, I engaged in another discussion with the FHFA General Counsel in which he indicated that my September 11th letter and budget justification had not changed FHFA's position on reducing OIG's funding. As a follow up to that discussion, on September 23, 2026, I emailed the General Counsel reiterating that our reduced funding request of \$49.9 million was the level of funding I had determined was necessary to support the effective execution of OIG's duties, emphasizing the negative effects that would result from funding of \$20 million, and explaining OIG's budget methodology (as outlined above). Shortly thereafter, the General Counsel requested documentation regarding OIG's budget methodology. On September 25, 2026, I provided the requested documentation to the General Counsel via an email in which I also advised him that I had no reason to believe that OMB no longer supported OIG's budget methodology. On the evening September 25th, the General Counsel responded to my email, advising me that FHFA did not consider OIG's budget methodology to be valid or applicable to the FY 2027 budget process.

Effect of Funding Cut on OIG Operations

As of the writing of this letter, FHFA's funding decision is final. On September 29, 2026, OIG received from FHFA a \$10 million allocation to fund operations for the first six months of FY 2027. At current expenditure rates, which OIG has not had sufficient time to adjust, OIG will exhaust this funding in approximately three months. We are currently evaluating all means to reduce non-personnel costs, including termination of all non-essential contracts, closing of all field offices, reducing our leased headquarters space (which we occupy pursuant to lease agreement with FHFA), and a ban on travel, including travel to conduct criminal investigations.

These measures are a stopgap, not a solution. We have begun the process of implementing a reduction-in-force, compliant with recently issued Office of Personnel regulations and will very likely implement rolling furloughs as soon as permissible by regulation. As noted, I anticipate we will ultimately be forced to reduce our staffing by approximately 70-80%, retaining only those personnel who are essential to conducting statutorily required audits and investigations, with minimum administrative infrastructure, focused on meeting information security requirements.

Consequently, we will be forced to cease supporting ongoing criminal investigations as soon as feasible after consultation with the Department of Justice and the more than 30 U.S. Attorney's Offices in which we have ongoing investigations, and we will have to cease our efforts to directly support DOJ's National Fraud Enforcement Division. We will not open new criminal matters. Because the financial resources to support a national criminal enforcement program far

⁵ In FY 2026, OIG reduced its originally allocated budget of \$59.4 million to \$51.7 million, a 13% decrease, in compliance with the President's Department of Government Efficiency Workforce Optimization Initiative.

exceed the level of funding FHFA has allocated, we will terminate that program and reduce our Office of Investigations to the minimum amount of personnel necessary to conduct investigations limited to the conduct of FHFA personnel, which historically have been exclusively administrative in nature, and maintain our statutorily required hotline.

We will also have to eliminate our Office of Evaluations, which has conducted the qualitative reviews that serve as the primary means of providing policy guidance to the Agency. We will reduce our staffing in the Office of Audits to the most sustainable level necessary to conduct statutorily required audits while attempting to maintain discretionary, qualitative audits to assist FHFA in addressing the Management and Performance Challenges we have identified in the upcoming fiscal year.

Conclusion

I deeply regret that our efforts to reach a reasonable outcome with the Agency have not been successful. I am extraordinarily proud of the work our personnel have accomplished and am saddened that the actions I must take will result in the dismissal of many outstanding public servants.

I welcome the opportunity to further discuss these matters with each of you.

Thank you for your time and consideration.

Sincerely,

JAMES HODGE

Digitally signed by JAMES
HODGE
Date: 2026.09.30 23:33:47 -04'00'

James Hodge
Acting Principal Deputy Inspector General,
Performing the Duties of the Inspector General
FHFA-OIG

Attachment A

FHFA-OIG email dated August 21, 2021

From: [REDACTED]
To: [REDACTED]
Subject: RE: Response to GAO question about 2011 assessment
Date: Tuesday, August 23, 2011 8:49:24 AM

thanks

[REDACTED]
Manager, Financial Management Operations and Systems
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552-0003
[REDACTED]

[REDACTED] - phone
[REDACTED] - fax

From: [REDACTED]
Sent: Sunday, August 21, 2011 9:21 AM
To: [REDACTED]
Subject: Response to GAO question about 2011 assessment

In response to the GAO inquiry of “How was the FY 2011 assessment derived”

On September 29, 2010, Steve A. Linick was confirmed by the Senate as the first Inspector General of the FHFA (FHFA-OIG) and was sworn into office on October 12, 2010. The Administration emphasized that the immediacy of the mortgage loan crisis and the statutory responsibility of the FHFA-OIG to oversee the programs and operations of the FHFA required the FHFA-OIG to begin operations in the most expedient manner possible.

To this end, Mr. Linick immediately recruited a small cadre of legal, administrative, and budget experts to formulate and justify proposed budgets levels for the FHFA-OIG for FYs 2011 and 2012. This team of experts first developed an analysis of the respective budgets of all existing OIG offices paying particular attention to those OIGs that perform activities similar in scope and function to FHFA-OIG, notably FDIC and SIGTARP. After consulting with several other OIGs it was determined that using FTE levels of similar OIGs as a benchmark was reasonable and the team confirmed through analysis of the program output and productivity deliverables that 150 FTE was a sufficient level to meet our mission and agency goals. The budget experts developed a full cost program model in support of 150 FTE and adhered to the standard costs modeling guidance included in the OMB circular A-11 *Preparation, Submission, and Execution of the Budget*. To further inform the process, the team worked extensively with FHFA staff to ensure that our budget submission was consistent with cost factors underlying FHFA operations including overhead costs such as rent and utilities, as well as staff specific costs such as employee compensation and benefit rates and per trip travel rates. Once the full cost model of operating FHFA-OIG for 100% of the year at full staffing levels was established (\$48 million and 150 FTE), the team set about creating assumptions of how much funding FHFA-OIG would require to function during FY 2011. Those assumptions included that by the end of the fiscal year we would incur a 75 FTE burn rate, absorb costs associated with relocating FHFA-OIG staff, and would likely need to establish and run a fully operational independent Information Technology infrastructure.

The budget justification was predicated on the following:

- The FHFA would levy annual assessments on Fannie, Freddie, and the FHLBs pursuant to 12 U.S.C. § 4516, in support of FHFA-OIG operations and the funds would be reflected as mandatory off-setting collections transferred from the FHFA to the FHFA-

OIG;

- From a comparability perspective, the proposed FY 2012 OIG budget of \$48 million fell near the median of the FY 2010 budgets of the 32 PAS (Presidentially Appointed, Senate confirmed) OIGs, and was comparable to that of the FDIC-OIG, which for FY 2011 had a budget of \$48 million supporting 159 FTEs. Likewise, it is comparable to that of the SIGTARP, which for FY 2011 had a budget of \$55 million supporting 160 FTEs; and
- The FHFA-OIG's proposed FY 2012 budget is approximately 1% of the total operating budgets for FHFA, Fannie, Freddie, and the FHLBs. Likewise, the FHFA-OIG's proposed FTE level represents approximately 1% of the combined FTEs for FHFA, Fannie, Freddie, and the FHLBs.

The OIG budget was prepared in accordance with A-11 guidance and adhered to the following:

- The justification was presented in concise, specific terms and covered all programs and activities of our agency;
- The justification included tables, charts, and graphs to supplement text in a manner designed to provide all of the information that FHFA-OIG and OMB had agreed was necessary for OMB to understand and evaluate our agency's request and make its determinations; and
- Our estimate was a full cost model for our organization and was aligned along budget and program activity lines.

On November 5, 2010, Acting Director Edward DeMarco emailed approval of the FY 2011 proposed budget level of \$29 million and 75 FTE for the FHFA-OIG to Mr. Linick. On November 10, 2010, the Acting Director formally submitted the budget for consideration to the Jeffrey Zients, Acting Director for OMB. FHFA-OIG met with OMB on November 23, 2010, and in early December OMB issued a passback to FHFA-OIG in support of the budget levels as they are reflected in the President's Budget Appendix for FY 2012.

██████████
Director, Office of Budget and Finance
FHFA Office of Inspector General
Phone: ██████████