FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards

Audit Report: AUD-2012-003

Dated: March 22, 2012

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AT A GLANCE

FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards

Why FHFA-OIG Did This Audit

The Housing and Economic Recovery Act of 2008 (HERA) established the Federal Housing Finance Agency (FHFA or Agency) as the supervisor and regulator of the Federal National Mortgage Association (Fannie Mae or Enterprise) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises). In September 2008, FHFA placed the Enterprises into conservatorships out of concern that their deteriorating financial conditions threatened the stability of the financial market. As conservator, FHFA is responsible for preserving and conserving Enterprise assets and restoring them to a sound financial condition in support of the nation's housing finance system.

The Enterprises purchase mortgages from lenders and either keep them as investments, or package and sell them to other investors. During the first 10 months of 2011, Fannie Mae purchased nearly 2.1 million loans valued at $427 billion.

To be eligible for purchase, a mortgage must satisfy the Enterprises' underwriting standards or have the Enterprises' approval to vary from them. These variances from the underwriting standards effectively relaxed underwriting standards, and thus contributed to Fannie Mae's credit losses and credit-related expenses.

FHFA's Office of Inspector General (FHFA-OIG) conducted this performance audit to assess FHFA's oversight of Fannie Mae's single-family mortgage underwriting standards and the internal controls over them.

What FHFA-OIG Recommends

FHFA-OIG recommends that FHFA's:

1. Division of Housing Mission and Goals formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.
2. Division of Examination Program and Support enhance existing guidance for assessing adherence to underwriting standards and variances from them.

The Agency provided comments agreeing to the recommendations in this report.

In FHFA-OIG's opinion, these recommendations apply to FHFA's responsibilities for both Enterprises.

What FHFA-OIG Found

Although FHFA has taken steps to ensure that the mortgages that the Enterprises purchase conform to underwriting standards, the Agency's oversight of underwriting is limited. FHFA informally reviews Fannie Mae's proposed credit policy changes, which may or may not affect underwriting standards and variances from them. FHFA also comments on and approves Fannie Mae's Corporate Scorecard, which in 2011 included goals intended to improve the quality of mortgages purchased. In addition, FHFA recently conducted a targeted examination that included reviewing whether a small sample of loans met underwriting standards (including variances).

FHFA-OIG concluded that the Agency can further strengthen its oversight by creating formal processes for reviewing both the Enterprises' underwriting standards and variances from them. FHFA can also enhance its guidance for planning and conducting its examinations of the Enterprises' underwriting quality control.

FHFA relies on the Enterprises to oversee and establish underwriting standards and to grant variances. FHFA-OIG found that the number of Fannie Mae's variances – and in effect its underwriting standards – have fluctuated substantially over time. For example, in 2005 when standards were loose, Fannie Mae authorized over 11,000 variances. Between January 2005 and August 2007, Fannie Mae began rescinding variances, which tightened underwriting standards. Fannie Mae had over 600 variances as of September 2011. Given the correlation of variances to underwriting standards, FHFA should establish formal guidance and procedures for its review of underwriting standards and variances from them.

In 2011, FHFA conducted a targeted examination that included Fannie Mae's quality control of compliance with underwriting standards. This was a positive step, but additional examination guidance is needed to ensure that Agency examinations are thoroughly and consistently performed. In addition, the examinations should consider the impact of variances that Fannie Mae has already approved.

By taking added measures to further strengthen its oversight of underwriting standards and related examinations, FHFA can increase its assurance that the Enterprises are operating in a safe and sound manner and that, as conservator, its goal of preserving and conserving Enterprise assets may be achieved.

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ABBREVIATIONS

ACI..Acquisition Credit Index
DU...Desktop Underwriter
Fannie Mae..Federal National Mortgage Association
FHFA or Agency..Federal Housing Finance Agency
FHFA-OIG.....................................Federal Housing Finance Agency, Office of Inspector General
FICO ....Fair Isaac Corporation
Freddie Mac ....Federal Home Loan Mortgage Corporation
GSE..Government-Sponsored Enterprise
HERA..Housing and Economic Recovery Act of 2008
HPB...Housing Policy Branch
LARC..Lender Assessment of Risks and Controls
LTV..Loan-to-Value
MBS..Mortgage-Backed Securities
MFP..Mortgage Fraud Program
NUC...National Underwriting Center
OFHEO .... Office of Federal Housing Enterprise Oversight
QA..Quality Assurance

Federal Housing Finance Agency
Office of Inspector General
Washington, DC

PREFACE

FHFA-OIG was established by HERA, which amended the Inspector General Act of 1978.[1] FHFA-OIG is authorized to conduct audits, evaluations, investigations, and other law enforcement activities pertaining to FHFA's programs and operations. FHFA-OIG also may recommend policies that promote economy and efficiency in administering the Agency's programs and operations, and work to prevent and detect fraud and abuse in them.

This performance audit assesses FHFA's oversight of Fannie Mae's single-family mortgage underwriting standards. FHFA-OIG found that FHFA can strengthen its oversight by enhancing controls for review of both the Enterprises' underwriting standards and related variances. FHFA can also improve its guidance for planning and conducting its examinations of the Enterprises' underwriting quality control.

FHFA-OIG believes that the recommendations contained in this report will help FHFA operate more economically, effectively, and efficiently. FHFA-OIG appreciates the assistance of everyone who contributed to the audit.

This audit was led by Heath Wolfe, Audit Director, who was assisted by Brian Flynn, Audit Manager.

FHFA-OIG has distributed this report to Congress, the Office of Management and Budget, and others, and will post it at http://www.fhfaoig.gov.

Russell A. Rau
Deputy Inspector General for Audits

[1] HERA, Public Law No. 110-289; Inspector General Act, Public Law No. 95-452

BACKGROUND

HERA established FHFA as supervisor and regulator of the housing government-sponsored enterprises (GSEs): Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks. FHFA's mission is to provide effective supervision, regulation, and housing mission oversight of the GSEs, in order to promote their safety and soundness, to support housing finance and affordable housing goals, and to facilitate a stable and liquid mortgage market. In September 2008, Fannie Mae and Freddie Mac entered conservatorships overseen by FHFA.[2] As conservator, FHFA is responsible for managing the Enterprises, but the Agency has delegated day-to-day operational decision-making back to Fannie Mae's and Freddie Mac's respective directors and officers.

As a GSE chartered by Congress, Fannie Mae's mission is to help keep the U.S. housing and mortgage markets liquid, stable, and affordable. It accomplishes this by supporting the secondary mortgage market through buying residential mortgages from lenders, which can then use the sales proceeds to make more loans. Fannie Mae can hold the mortgages it buys in its own investment portfolio, or it can package them into mortgage-backed securities (MBS), which it then sells to investors. In exchange for a fee, Fannie Mae guarantees that these investors will receive timely payment of principal and interest on their investments. Fannie Mae is the largest single issuer of MBS, and during the first 10 months of 2011 it purchased nearly 2.1 million loans valued at $427 billion.

Below, FHFA-OIG summarizes the three ways that loans qualify for purchase by Fannie Mae: (1) meeting its manual underwriting standards; (2) meeting its underwriting standards, as amended by authorized variances; or (3) meeting the evaluation criteria in its automated underwriting system, Desktop Underwriter (DU). FHFA-OIG then outlines how Fannie Mae oversees its loan purchases, before turning to how FHFA supervises and regulates the Enterprise. Here and throughout, FHFA-OIG focuses on single-family mortgage loans in accordance with the audit objective.

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[2] HERA also expanded the authority of the U.S. Department of the Treasury (Treasury) to provide financial support to the Enterprises. Since September 2008, Treasury has provided financial support by purchasing the Enterprises' preferred stock pursuant to Senior Preferred Stock Purchase Agreements. As of the end of the third quarter of 2011, Treasury had provided approximately $183 billion to the Enterprises to offset their losses and prevent their insolvency.

How Loans Qualify for Purchase by Fannie Mae

Underwriting Standards

Mortgages generally are underwritten by the financial institutions that originate them. If financial institutions plan to sell their loans to Fannie Mae, then they must conform their underwriting to the Enterprise's purchasing requirements, which include underwriting standards. Fannie Mae's underwriting standards, which it refers to as eligibility requirements, derive from a combination of Congressional charter-based and traditional risk-based criteria.

For example, according to its Congressional charter, single-family, conventional mortgage loans are subject to maximum original principal balance limits (*i.e.*, conforming loan limits), which FHFA adjusts annually based on the average price of such residences. In 2012, the general loan limit is $417,000, but it may be more in higher-cost areas. Fannie Mae's charter also establishes that any conventional single-family mortgage loan it purchases or securitizes that has a loan-to-value (LTV) ratio over 80% – meaning the borrower made a down payment of less than 20% – must have credit enhancement such as mortgage insurance.[3]

In addition to these charter-based, mortgage eligibility criteria, Fannie Mae relies on traditional risk-based criteria, which focus on collateral, capacity, and creditworthiness. Collateral is property pledged to secure debt. The ratio between the amount of a loan and the value of the property securing the loan is a measurement of collateral. Capacity is the borrower's ability to make payments on debt, and the ratio between payments the borrower must make monthly to repay outstanding debts and the borrower's monthly income is a measurement of capacity. Creditworthiness is an assessment of the borrower's probability of repaying a debt. A borrower's credit score is an indicator of creditworthiness. For 2012, the Enterprise requires a borrower to pledge at least 5% collateral to secure a loan; to have a debt-to-income ratio of 36% to 45% (depending on compensating factors); and to have a minimum credit score of 660 for loans with an LTV above 75%.[4]

Fannie Mae discloses such eligibility requirements in its *Selling Guide*, which specifies the underwriting standards that lenders must follow for the Enterprise to buy their loans. Further, when a lender sells a mortgage to Fannie Mae, it must promise that the loan complies with the Enterprise's underwriting standards and must make certain representations and warranties, such as that the value of the property securing the loan is actually as described in the loan paperwork

[3] LTV is calculated by dividing the original loan amount by the property value.

[4] If LTV is greater than 75%, then the minimum credit score is 660 as determined by FICO (a credit scoring company, Fair Isaac Corporation). If LTV is less than or equal to 75%, then the minimum FICO score is 620. FICO computes a credit score that represents a borrower's credit history.

or that the borrower has the income stated on the mortgage application. If Fannie Mae later discovers that the loan contains a defect (*e.g.*, the borrower did not have the income stated on the mortgage application), the Enterprise can require the lender to buy the loan back at full face value.

Notwithstanding the housing boom and subsequent housing collapse, Fannie Mae's basic underwriting standards for purchase-money loans secured by single-family, principal residences have not changed materially.[5] As shown in Figure 1 below, since 2006, Fannie Mae has not meaningfully changed its underwriting standards for purchases of single-family homes that serve as principal residences.

Figure 1: Fannie Mae Underwriting Standards for 2006 and 2011[6]

	2006	2011
Collateral (LTV)	95	95
Capacity (Debt-to-Income)	36%	36%[7]
Creditworthiness (Credit Score)	N/A	660[8]

On the other hand, Fannie Mae has granted variances that have had the effect of modifying underwriting standards over time.

Variances from Underwriting Standards

Fannie Mae may buy loans that do not follow its *Selling Guide*'s underwriting standards if it has granted the lender(s) exceptions called variances.[9] In effect, these variances can relax Fannie Mae's eligibility requirements by enabling purchases of mortgages that may not otherwise qualify for sale to the Enterprise. For example, although Fannie Mae's underwriting standards

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[5] Although Fannie Mae did not materially change eligibility requirements for single-family, principal home mortgage loans over the past several years, it did change them for other mortgage loans deemed to be high-risk. For example, Fannie Mae reduced the maximum allowable LTV ratios for two-unit properties, cash-out refinances, second homes, and investment properties.

[6] Source: *Qualifying Ratios History* and *Purchase Eligibility History*; information provided by Fannie Mae.

[7] The benchmark is 36%, but can go up to 45% if there are strong compensating factors.

[8] Minimum FICO score is 660 if LTV is greater than 75%. If LTV is less than or equal to 75%, then minimum FICO score is 620.

[9] Variances are included in Fannie Mae's seller agreements, and, thus, are a product of negotiation with individual lenders.

require a minimum down payment (collateral) of 5%, it has approved variances allowing no down payment loans.

During the housing boom, Fannie Mae issued a substantial number of variances – reaching over 11,000 in 2005. Many of these variances increased credit risk and effectively relaxed underwriting standards. For example, from 2005 to 2008, Fannie Mae granted variances that included many higher-risk features, such as loans made with unverified income or assets, or little or no down payment. As shown in Figure 2 below, loans Fannie Mae purchased during this period were characterized, on average, by higher LTV ratios and lower borrower credit scores than those the Enterprise acquired from 2009 to September 2011.[10]

Figure 2: Credit Profile of Single-Family Conventional Loan Acquisitions[11]

	2005-2008	**2009-2011***
Original LTV ratio greater than 90%	11%	6%
Debt-to-income greater than 36%	55%	41%
FICO credit score less than 620	5%	0%

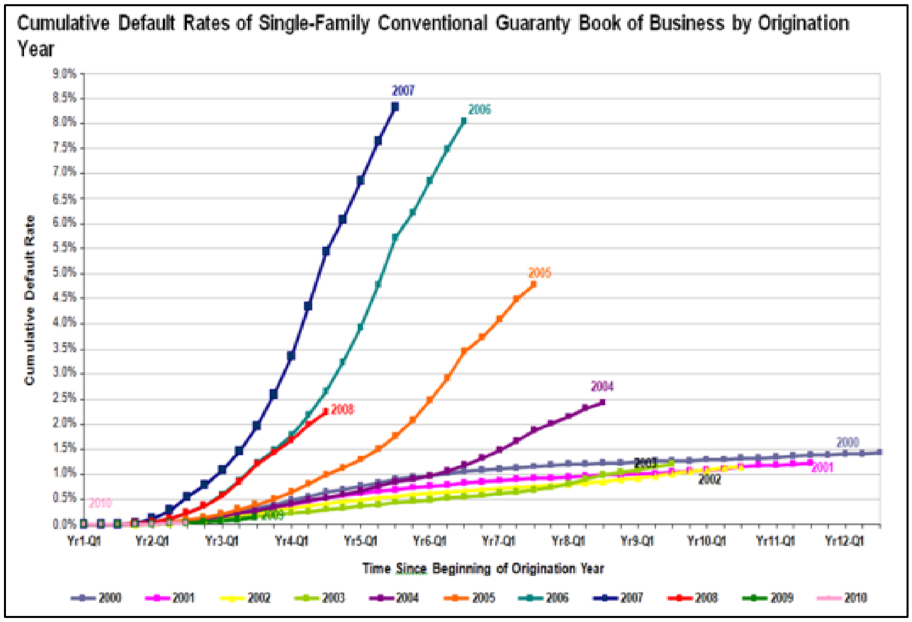
*As of the end of the third quarter of 2011.

Additionally, as shown in Figure 3 on the next page, loans originated between 2005 and 2008 have had substantially higher default rates than loans issued before the housing boom.

[10] See *Fannie Mae 10Q Report* for the nine months ending September 30, 2011 (p. 8).

[11] Source: *Fannie Mae 10Q Report* for the nine months ended September 30, 2011. Debt-to-income information was provided separately by Fannie Mae.

Figure 3: Fannie Mae Single-Family Cumulative Default Rates[12]



The variances' effective contribution to relaxed underwriting standards and purchases of riskier loans were major factors in Fannie Mae's recent credit losses and credit-related expenses.[13] From January 1, 2009, through September 30, 2011, Fannie Mae reported a total of $50 billion in single-family credit losses and $119 billion in credit-related expenses.[14] Most of these losses came from single-family loans the Enterprise bought between 2005 and 2008. Figure 4 on the next page shows the categories of loans with the largest percentages of credit losses (the categories are not mutually exclusive).

[12] Source: Fannie Mae's *2011 Third-Quarter Credit Supplement* (November 8, 2011).

[13] Credit losses are reported for management purposes by Fannie Mae as loans charged off after foreclosure or acceptance of a short sale or deed-in-lieu of foreclosure, net of recoveries and expenses. Credit-related expenses consist of a provision for credit losses and foreclosed property expenses that are included in Fannie Mae's consolidated statement of operations in accordance with generally accepted accounting principles.

[14] Single-family credit-related expenses for 2009 were over $71 billion, for 2010 were over $26 billion, and for the nine months ended September 30, 2011, were almost $22 billion.

Figure 4: Single-Family Credit Guaranty Segment Credit Losses (in $ billions)[15]

	2009	2010	2011*	Total
Credit losses	$13	$23	$14	$50
Percentage of Credit Losses – Alt-A Loans**	39.6%	33.2%	24.6%	–
Percentage of Credit Losses – LTV ratio greater than 90%	19.2%	15.9%	18.2%	–
Percentage of Credit Losses – Interest Only Loans	32.6%	28.6%	24.5%	–

* Credit losses are for the first three quarters of 2011, and percentages of credit losses are as of the end of the third quarter of 2011.

**Alt-A market segment serves borrowers whose credit histories are close to prime, but the loans have one or more high-risk features, such as limited documentation of income or assets.

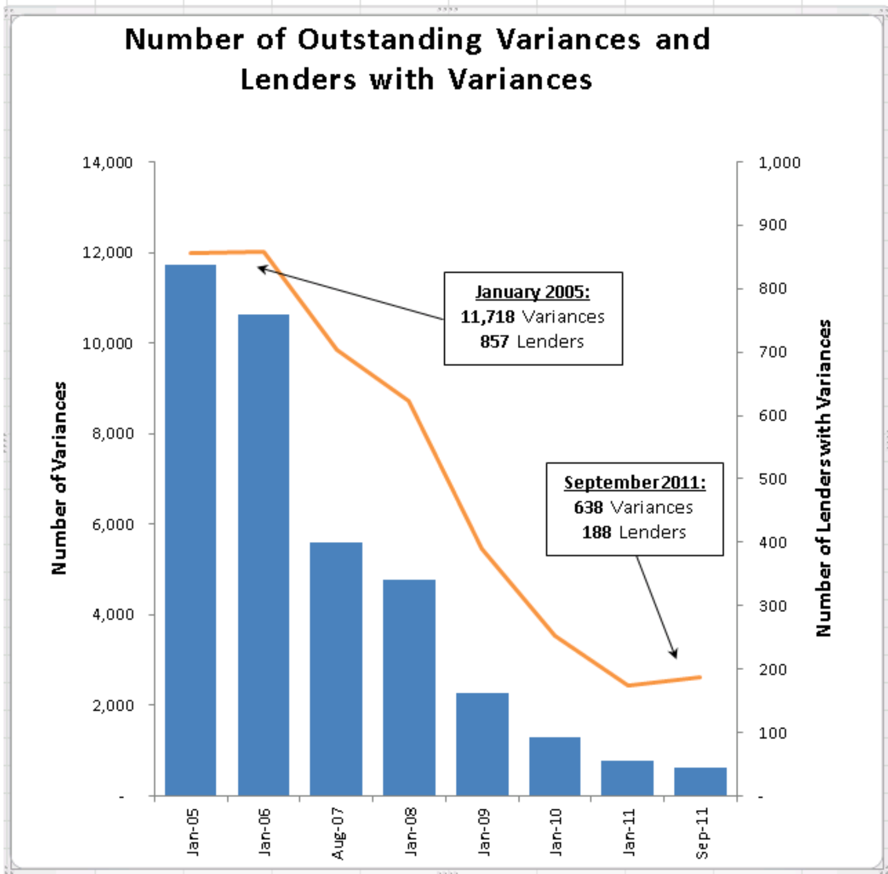
Note: Other credit characteristic categories with credit losses include loans with FICO scores less than 620.

As the housing market collapsed, Fannie Mae reduced significantly the number of variances it granted. Between January 2005 and August 2007, Fannie Mae reduced variances to less than 6,000.[16] As of September 2011, the Enterprise had reduced outstanding variances from approximately 11,000 for 800 lenders to 638 variances for 188 lenders, as reflected in Figure 5 on the next page. Many of the canceled variances related to higher-risk features such as loans made with unverified income or assets.

[15] Source: Fannie Mae's 10K Report for 2010 and 10Q report for the nine months ending September 30, 2011; and analysis of Fannie Mae's *2011 Third-Quarter Credit Supplement* (November 8, 2011).

[16] The conservatorship commenced on September 6, 2008.

Figure 5: Reduction in Variances by Year[17]



Fannie Mae reports that the reduction in variances supports its objective of improving credit quality and reducing operational risk.[18] For example, Fannie Mae no longer allows Alt-A mortgages, which enable borrowers with inadequate documentation of income and assets to obtain loans.

Nonetheless, many variances remain in place today and some may increase credit and/or operational risk.

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[17] Source: Fannie Mae Presentation, *Credit Variances Risk Profile and Performance Review* (August 2011).

[18] For the Enterprises, credit risk arises from an obligor's failure to meet the terms of any financial contract or other failure to fulfill a financial commitment. Credit risk is found in activities where success depends on counterparty, issuer, or borrower performance. The risk arises any time Enterprise funds are extended, committed, invested, or otherwise exposed to risk through contractual agreements. Operational risk comes from loss exposure such as exposure that can arise because of inadequate or failed internal processes (*i.e.*, people and systems). Operational losses are all economic losses, including those related to legal liability, reputational setbacks, and compliance and remediation.

Desktop Underwriter

As an alternative to qualifying mortgage loans for Fannie Mae's purchase by manually meeting its underwriting standards (or authorized variances from them), most lenders rely on automated underwriting software. Fannie Mae has developed its own software, DU, which lenders use to evaluate whether prospective mortgage loans are eligible for sale to the Enterprise. In 2010, over 1,500 lenders used DU, and over 71% of the loans delivered to Fannie Mae were approved using the software. Lenders may also develop their own underwriting software, but Fannie Mae must approve and grant a variance for its use.

Essentially, DU reviews the data provided in a mortgage application and identifies risk factors; it also determines whether these risk factors have been mitigated. DU considers such credit risk characteristics as: credit history, delinquent accounts, and foreclosure history. DU's evaluation also incorporates non-credit risk factors, such as the loan's purpose and term, the type of property, and co-borrowers. DU uses these risk factors and other information entered from the mortgage application to reach an overall credit risk assessment and determine if the loan is eligible for sale to Fannie Mae.

How Fannie Mae Oversees Its Loan Purchases

Fannie Mae's single-family mortgage business involves a nationwide network of approximately 2,500 approved mortgage lenders and servicers. From January to October 2011, Fannie Mae acquired over 2 million loans valued at over $427 billion. To oversee this large venture, the Enterprise has established an oversight process that includes lender/servicer assessment, quality assurance review and remediation for purchased loans, and fraud detection.

Assessing Lenders and Servicers

Fannie Mae's Lender Assessment of Risk and Controls (LARC) team oversees its mortgage sellers and servicers in part by reviewing sellers' documents and visiting their offices. LARC partners with Fannie Mae's customer account risk managers and other Fannie Mae offices to resolve issues and to regularly report on their status. LARC provides Fannie Mae with coverage of risks related to lender and servicer performance such as underwriting and delivering loans.

Fannie Mae's Quality Assurance of Single-Family Loans

Fannie Mae does not conduct compliance reviews on loans it buys prior to purchase. However, after purchase, the Enterprise's quality assurance (QA) group in its National Underwriting Center (NUC) reviews samples of loans to ensure that they comply with the terms and conditions under which they were acquired (including underwriting standards and variances) and that they are in compliance with representations and warranties made by loan sellers.[19] If QA's review reveals that a loan did not comply, then they send the loan to a "letter review team," which re-evaluates the loan file. If the letter review team confirms that standards were not met, it may cause Fannie Mae to require, in accordance with its *Selling Guide*, that the loan seller buy back the mortgage.

In addition to QA reviews, Fannie Mae's quality control team at NUC performs second-level reviews on samples of previously reviewed loans to validate QA's initial assessments. NUC's second-level quality control team is comprised of both underwriters and appraisers, and it examines work performed by both the QA loan review and letter review teams.

Detecting Fraud

Fannie Mae's Mortgage Fraud Program (MFP) reviews cases of suspected fraud, identifies fraud risk, and works with NUC to remediate fraud and recoup losses. MFP also reports suspected fraud to FHFA-OIG's Office of Investigations and to FHFA's Operational Risk Branch. In addition, MFP works with Fannie Mae's Modeling & Analytics group to search data for patterns indicative of fraud.

How FHFA Supervises and Regulates Fannie Mae's Loan Purchases

FHFA serves as both the regulator and conservator of the Enterprises. FHFA does not have a formal process for reviewing underwriting standards and variances, but it informally reviews and comments on Fannie Mae's proposed credit policy changes.[20, 21] Fannie Mae changes its credit policy in order to manage risk, and these proposed changes may (or may not) affect underwriting standards and variances from them. However, FHFA's review regimen was not designed to assess underwriting standards and variances and does not assess them in a systematic manner.

Also, FHFA reviews, comments on, and – additionally – approves Fannie Mae's Corporate Scorecard. According to FHFA, the scorecard previously established goals for improving the quality of mortgages purchased by Fannie Mae. FHFA reported that Fannie Mae took action to meet the goals; thus, it acquired mortgages that exceeded underwriting standards. However, as

[19] The overwhelming majority of loans reviewed by the NUC are defaults, as opposed to random samples of performing loans.

[20] The process is "informal" because FHFA considers proposed changes and comments upon them as it deems appropriate; however, there is no formal policy or procedure concerning these reviews. Consequently, there are no procedures controlling, for example, what happens in the event of disagreement with a proposal.

[21] Credit policies define an Enterprise's tolerance for risk, establish risk limits, and set the level of profitability that an Enterprise expects to achieve for incurring various credit risks.

discussed below, it is underwriting standards and the variances from them that govern the mortgages that Fannie Mae acquires, not the scorecard's goals or FHFA's administration of such goals. Accordingly, the scorecard is not a substitute for detailed consideration of underwriting standards and variances.

FHFA Regulator and Conservator Responsibilities

As regulator, FHFA is responsible for overseeing the Enterprises and does so through continuous supervision, targeted examinations, and other activities (*e.g.*, special projects). Continuous supervision encompasses a wide range of off-site activities designed to monitor and analyze an Enterprise's overall business profile, including any trends or emerging risks.[22] Targeted examinations are in-depth, on-site assessments of specific risks and risk management systems.

As conservator, FHFA assumed all of the powers of the Enterprises' shareholders, directors, and officers.[23] In November 2008, FHFA delegated day-to-day decision-making back to the Enterprises' officers and directors, but identified particular activities that require Agency approval, including those that:

1. Involve capital stock, dividends, preferred stock purchase agreements, increased risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk; or

2. Will likely cause significant reputational risk, in the reasonable business judgment of the board of directors at the time.

In July 2009, FHFA refined its conservator role through the issuance of a regulation clarifying its November 2008 delegation of day-to-day decision-making authority. The regulation requires FHFA approval of all new Enterprise products and activities, but it states that "new products" do not include, "[a]ny modification to the . . . mortgage underwriting criteria relating to the mortgages that are purchased or guaranteed by the Enterprise[s]."[24]

FHFA's Oversight of Underwriting Standards and Variances

Oversight of underwriting by FHFA and its predecessor, the Office of Federal Housing Enterprise Oversight (OFHEO), has been limited. For example, in December 2006, OFHEO

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[22] FHFA's continuous supervision may involve meeting with Fannie Mae's credit risk committees and reviewing the Enterprise's reports, such as the acquisition profile of loans that it buys.

[23] *See* Public Law No. 110-289, § 1145.

[24] *See* 12 C.F.R. §1253.2. The regulation notes, however, that it does not restrict FHFA's authority to review existing products or activities.

directed the Enterprises to adopt federal interagency guidance on non-traditional mortgages and subprime lending.[25] The guidance focused on non-traditional mortgage products that allowed borrowers to defer payment of principal and, sometimes, interest. To meet the expectations of the guidance, OFHEO's Director stated that Fannie Mae should, among other things, "[d]esign and implement internal controls to ensure that mortgages purchased and guaranteed by Fannie Mae meet the underwriting and consumer protection standards of the guidance." In August 2007, OFHEO's Director further directed the Enterprises to comply with the guidance and subsequent complementary policy, the final *Statement on Subprime Mortgage Lending*, by September 13, 2007.[26]

FHFA advised FHFA-OIG of no further elaboration upon the scope of its predecessor's oversight of underwriting, and it continues to rely on the Enterprises to oversee underwriting standards and variances.

Review of Credit Policy Changes

FHFA does not formally review (*i.e.*, approve or disapprove) underwriting standards and variances. However, FHFA's Housing Policy Branch (HPB), within the Office of Housing and Regulatory Policy in the Division of Housing Mission and Goals, provided documents to FHFA-OIG related to its informal review (*i.e.*, consider and comment, as it deems appropriate) of 46 proposed credit policy changes in 2010 and 2011, and these changes may or may not have impacted underwriting standards.[27]

At its discretion, HPB reviewed – and, when deemed appropriate, commented on – proposed credit policy changes it received from Fannie Mae. HPB generally completed its review process within a few weeks and either provided comments to Fannie Mae on the proposed changes or

[25] Department of the Treasury's Offices of the Comptroller of the Currency and Thrift Supervision, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the National Credit Union Administration, *Interagency Guidance on Nontraditional Mortgage Product Risks,* 71 Fed. Reg. 58609 (October 4, 2006) (final guidance).

[26] Department of the Treasury's Offices of the Comptroller of the Currency and Thrift Supervision, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the National Credit Union Administration, *Statement on Subprime Mortgage Lending*, 72 Fed. Reg. 37569 (July 10, 2007) (final guidance).

[27] Changes in credit policy may affect variances and, in turn, underwriting standards. For example, a credit policy change affecting mortgage refinancing expanded a variance for waiver of property inspection for mortgages up to 125% LTV, but restricted the variance if mortgage insurance was required. In another example, a credit policy change dealt with revised Fannie Mae compliance with the prohibition on hiring persons on the General Services Administration's Excluded Party List. This credit policy change did not address any variances. In a third example, Freddie Mac's Chief Credit Officer requested that FHFA establish a minimum documentation standard for evaluation of a borrower's ability to repay a mortgage based on the borrower's income and assets (*i.e.*, capacity). Although this credit policy change would technically have affected underwriting standards, HPB declined to establish the documentation standard.

notified the Enterprise that it had no comments. HPB's efforts are encouraging and may have indirectly affected one or more underwriting standards or variances, but they are not designed or intended to have such an affect. Credit policies are high-level, macro issues affecting Fannie Mae's activities in many areas. Underwriting standards – and to a greater degree variances – are routine operating issues limited to mortgage origination. Moreover, variances are lender- or transaction-specific. To the extent that HPB's credit policy reviews affect an underwriting standard, it is because the higher-level policy has an indirect affect on the standard. Underwriting standards are not HPB's focus, and HPB's documentation of its reviews did not comprehensively indicate its analysis of the facts and circumstances supporting individual underwriting standards and variances.

Additionally, HPB's Associate Director undertook the credit policy review initiative without formal FHFA guidance, policies, or procedures. And, since the initiative began, no changes have been made to FHFA's supervisory guide or handbook to direct subsequent reviews. Thus, there is no assurance that there is any consistency among the disparate reviews.[28]

FHFA's Examinations

Examinations are one means by which FHFA supervises the Enterprises, and the Agency typically prioritizes its examinations in its supervisory strategy. FHFA's 2011 supervisory strategy for Fannie Mae states that the Agency "identified serious weaknesses across the single-family and multifamily businesses and in counterparty activities." It further states that "[w]eaknesses in the single-family business include high credit losses, high volumes of seriously delinquent loans, continuing high levels of repurchases, and real estate owned."[29] FHFA's supervisory strategy also states that the Agency's examinations will focus on broad business areas such as single-family and multifamily, among other areas.

FHFA's examination plan for Fannie Mae includes quality control as an objective to, "[t]est Fannie Mae's assertion that credit quality of recent vintages is 'good' by evaluating the quality control process."[30] Pursuant to its 2011 examination plan and during FHFA-OIG's audit fieldwork, FHFA began a targeted examination that included reviewing Fannie Mae's (*i.e.*, NUC's) quality control of 30 loans from Fannie Mae's top 4 lenders. Fannie Mae's QA had previously reviewed the selected loans for compliance with its underwriting standards.

[28] FHFA-OIG did not assess the disparities among HPB's individual reviews. However, as discussed in the body of this report, HPB did not have formal policies controlling its reviews, its records documenting its reviews were inconsistent, and it did not always fully document its decision-making process.

[29] FHFA, *2011 Supervisory Strategy for Fannie Mae* (July 21, 2011).

[30] FHFA, *2011 Examination Plan for Fannie Mae* (July 21, 2011).

Nonetheless, by the end of FHFA-OIG's fieldwork, FHFA's procedures for performing the NUC examination were still in draft.

Also during the fieldwork for this audit, FHFA's Risk Modeling Branch was conducting an examination of Fannie Mae's DU. Lenders use DU's underwriting findings reports to evaluate mortgage applications' credit risk and eligibility for sale to Fannie Mae, the Federal Housing Administration, or the Department of Veterans Affairs. In 2010, over 1.9 million loans (71% of all loans purchased by the Enterprise) were delivered to Fannie Mae using DU. FHFA examiners developed four matters requiring attention relating to the DU model.[31] For example, FHFA examiners determined that Fannie Mae must strengthen its model management control around DU, particularly in the areas of defining roles and responsibilities and in setting decision-making rules.

Corporate Scorecard Review

As part of its conservator role, FHFA has provided feedback and approved Fannie Mae's Corporate Scorecard, which is used to measure the performance of Enterprise executives and assist in determining their compensation, but the scorecard is not designed to regulate underwriting standards. According to FHFA, the scorecard helped track progress in improving the quality of mortgages purchased by Fannie Mae in 2011. The 2011 scorecard has explicit goals concerning loan acquisition quality. For single-family mortgages, the scorecard articulates an acquisition credit index (ACI) goal of 0.50%, excluding Home Affordable Refinance Program loans. ACI measures the probability of a loan becoming 90 days delinquent during the first year after origination, and, for example, an ACI of 1% means that there is a 1% chance that a loan will become delinquent for 90 days during the first year following origination.

Fannie Mae's ACI has been declining since 2007. In 2007, the ACI was 2.22%. The year-to-date ACI as of November 2011, exclusive of Home Affordable Refinance Program loans, was 0.18%. The improvement in ACI, according to FHFA, is directly related to efforts taken to strengthen underwriting overall and demonstrates the effectiveness of setting corporate targets around acquisition quality to monitor underwriting standards. For 2012, however, Fannie Mae's Corporate Scorecard does not include explicit goals for underwriting standards.

In contrast to FHFA's decision not to affirmatively review underwriting standards, the Agency believes that feedback and approval of the Corporate Scorecard is an appropriate conservatorship action, and it notes Fannie Mae's recent improvement in ACI. However, underwriting standards

[31] Matters requiring attention are issues of supervisory concern that warrant special attention by an Enterprise to ensure that corrective action is appropriately planned and executed. *See* FHFA's Division of Enterprise Regulation *Supervision Handbook* 2.1 (June 16, 2009).

and variances control the mortgages that Fannie Mae acquires, not the scorecard's goals, and there are many factors that contribute to the better performance of recent mortgage vintages.

FINDINGS

FHFA-OIG finds that:

1. FHFA Lacks Policies and Procedures Controlling Its Process to Review Underwriting Standards and Variances

FHFA can further strengthen its oversight of underwriting standards for single-family mortgages. Although Fannie Mae informs FHFA in advance about proposed credit policy changes that <u>may or may not</u> affect underwriting standards, FHFA has neither implemented a policy of affirmatively reviewing underwriting standards (including variances), nor has it established formal procedures or guidance for reviewing them.

Oversight of underwriting standards is significant given that such standards control which loans Fannie Mae buys, and, thus, they comprise the lynchpin of a principal business activity valued at $605 billion in 2010 and $427 billion in 2011 (as of October 31, 2011). As conservator, FHFA has a responsibility to ensure that Fannie Mae's underwriting standards minimize credit losses, and it can further fulfill that responsibility by ensuring sound oversight of underwriting standards and variances through more active involvement and detailed guidance governing its review process.

HERA requires FHFA's Director to establish for each regulated entity standards relating to, among other things:

> (1) Management of credit and counterparty risk, including systems to identify concentrations of credit risk and prudential limits to restrict exposure of the regulated entity to a single counterparty or groups of related counterparties; and
>
> (2) Such other operational and management standards as the Director determines to be appropriate.[32]

Thus, FHFA-OIG believes that the Director's authority under HERA clearly extends to the Enterprise's underwriting standards and the manner in which they present credit policy matters to the Agency for review. Yet, FHFA has delegated decision-making authority regarding underwriting standards to the Enterprises. The Agency only considers such standards if they happen to be integral to a proposed credit policy change, and even then it does not approve or

[32] *See* Public Law No. 110-289, § 1108.

disapprove of such proposed change and has no established review policies to ensure consistency or resolve disparities.

To its credit, FHFA has performed informal reviews of credit policy changes that may include some underwriting standards and related variances. However, this review process is not governed by formal policies that: establish the objectives to be achieved in the reviews; define how the reviews will be performed; set forth the monitoring and related controls governing the process; and describe the means to escalate unresolved issues for decision. Additionally, the policies could address the manner in which credit policy changes are communicated to FHFA by the Enterprises and the supporting documentation required for the proposed changes.

Underwriting is a process used to determine whether the risk of offering a mortgage loan to a borrower under certain parameters is acceptable. In particular, underwriting is a key control in managing credit risk, which includes the risk of loss due to the inability of a borrower to repay the loan. FHFA, as conservator and regulator, has a responsibility to preserve and conserve Enterprise assets and ensure their financial safety and soundness. Accordingly, FHFA-OIG believes that FHFA should assume a more active role in reviewing the Enterprises' underwriting standards and variances, and should develop detailed procedures governing its review process.

2. Guidance for Targeted Examinations of Enterprise Compliance with Underwriting Standards Can Be Enhanced

FHFA can improve its guidance to its examiners related to the Enterprises' underwriting quality control. In 2011, FHFA began targeted examinations that included Fannie Mae's quality control of compliance with underwriting standards. This was a positive step, but additional guidance is needed to ensure the success of underwriting examinations going forward. Such guidelines should include criteria for independent testing of quality control, at a minimum. Additionally, guidance on examination planning would benefit from addressing comprehensive supervisory plans to lead examinations of underwriting, and providing more detailed information on underwriting variances approved by Fannie Mae, the lenders authorized to use them, and their effective time periods.

FHFA's Risk Modeling Branch conducted a targeted examination of Fannie Mae's DU in 2011. DU evaluates mortgage default risk and arrives at an underwriting recommendation, but the lender remains responsible for assessing whether a loan should be approved and delivered to Fannie Mae. The automated system is used for the majority of loans delivered to Fannie Mae for purchase. FHFA's examiners found significant issues, including that Fannie Mae needs to strengthen its model management control, particularly in the areas of defining roles and responsibilities and in setting decision-making rules. However, the Risk Modeling Branch did not have examination guidance to rely on when conducting its review. Such guidance could make the process more efficient for examinations going forward and help to ensure that all critical risk areas are explored.

Additionally, FHFA's most recent quarterly risk assessment cited credit risk as a critical concern. This is due in part to the high volume of seriously delinquent loans. Although the number of seriously delinquent loans is reported to be declining and loans that were originated in 2009 and later are performing relatively well, credit risk is noted to be increasing due to Fannie Mae's Refi Plus program, which refinances existing loans with LTVs of up to 125%.[33] Moreover, FHFA's new Home Affordable Refinance Program authorizes LTVs in excess of 125%, further exacerbating the risk. FHFA needs to address the increasing credit risk through its development of comprehensive examination guidance.

Further, Fannie Mae continues to authorize over 600 variances to its underwriting standards. Yet, FHFA does not formally review variances and, thus, it is not in a position to appreciate the nature and scope of the outstanding variances. Obtaining information about the variances would help to educate FHFA about existing increased credit risk and may improve examination guidance.

In sum, FHFA's current targeted examinations are steps in the right direction, and lessons-learned can be applied in future examinations related to underwriting standards. FHFA's Division of Enterprise Regulation recognizes that supervisory plans and guidance as well as transaction testing of underwriting and quality control for new loans require improvement, and is working to address these problems. However, FHFA would have greater assurance of the effectiveness and consistency of its supervision through additional guidance on examination of underwriting and specific procedures for oversight of compliance with the complex, voluminous, and interrelated factors involved in the Enterprises' underwriting standards and the variances from them.

[33] FHFA's Division of Enterprise Regulation, Office of Fannie Mae Examination, Risk Assessment Memo (November 28, 2011).

CONCLUSION

FHFA has taken a number of steps to oversee Enterprise controls to ensure purchased mortgages conform to strengthened underwriting standards. The Agency can further enhance its oversight by improving its controls for reviewing both the Enterprises' underwriting standards and variances from them. FHFA can also enhance its guidance for planning and conducting its examinations of the Enterprises' underwriting quality control.

By taking added measures to strengthen its oversight of underwriting standards and related examinations, FHFA can increase its assurance that the Enterprises are operating in a safe and sound manner and that its conservator goal of preserving and conserving Enterprise assets continues to be achieved.

RECOMMENDATIONS

FHFA-OIG recommends that FHFA's:

1. Division of Housing Mission and Goals formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.

2. Division of Examination Program and Support enhance existing examination guidance for assessing adherence to underwriting standards and variances from them.

SCOPE AND METHODOLOGY

The objective of this performance audit was to assess the extent of FHFA's oversight of Fannie Mae's single-family mortgage underwriting standards. Specifically, FHFA-OIG sought to review FHFA's: (1) written policies and procedures for its oversight of Fannie Mae's single-family underwriting standards; and (2) oversight of Fannie Mae's internal controls over its implementation of single-family underwriting standards. FHFA-OIG also plans to contract for additional audit coverage related to the effectiveness of quality controls used by the Enterprises to determine compliance with underwriting standards.

To achieve its objective, FHFA-OIG reviewed FHFA documents including its report of examination for 2010; supervisory strategy and examination plan for 2011; credit policy change review documents; quarterly risk assessments for the audit period; and draft procedures and results for the examinations of NUC and DU. FHFA-OIG also reviewed Fannie Mae documents including its Securities and Exchange Commission 10K and 10Q filings; internal audit reports; the *Selling Guide* (September 27, 2011); master agreements that contain variances with select lenders; and variance data. In addition, FHFA-OIG interviewed FHFA and Fannie Mae personnel.

FHFA-OIG performed fieldwork for this performance audit from June through December 2011. FHFA-OIG conducted this audit at FHFA's offices in Washington, D.C.; and Fannie Mae's offices in Washington, D.C., and Dallas, Texas. FHFA-OIG relied on computer-processed and hardcopy data from FHFA and Fannie Mae. This included data contained in FHFA's xWorks document repository and Fannie Mae's data of variances as of January 2005 and September 2011. FHFA-OIG determined that the data was sufficiently reliable for the purposes of the audit.

FHFA-OIG assessed the internal controls related to its audit objective.[34] Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are achieved:

1. Effectiveness and efficiency of program operations;
2. Reliability of financial reporting; and
3. Compliance with applicable laws and regulations.

[34] The Government Accountability Office published *Standards for Internal Control in the Federal Government,* (November 1, 1999).

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives, and include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance. Based on the work completed on this performance audit, FHFA-OIG considers weaknesses in FHFA's oversight of Fannie Mae's single-family mortgage underwriting standards to be a significant deficiency within the context of the audit objective.

FHFA-OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for FHFA-OIG's findings and conclusions based on the audit objective. FHFA-OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions included herein, based on the audit objective.

APPENDIX A: FHFA's Comments on Findings and Recommendations

Federal Housing Finance Agency

MEMORANDUM

DATE: March 2, 2012

TO: Russell A. Rau, Deputy Inspector General for Audits
FHFA Office of Inspector General

FROM: Wanda I. DeLeo
Deputy Director, Division of Examination Programs and Support

Meg Burns MF for Meg Burns
Senior Associate Director for Housing & Regulatory Policy

SUBJECT: FHFA Comments on FHFA-OIG Audit Report: *FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards,* AUD-2011-013

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to the findings and recommendations contained in the above referenced audit report (Report). We appreciate the opportunity to provide a response and value the feedback on FHFA programs we receive from the Office of Inspector General (OIG) through its audits and evaluations.

Underwriting standards at the Enterprises are of critical importance to FHFA. We appreciate the OIG's recognition of the steps FHFA has taken to strengthen underwriting standards and our increased oversight of Enterprise controls in this area. As the OIG notes in the Report, FHFA believes these efforts contributed to a significant reduction in the risk of a new Fannie Mae loan becoming 90 days delinquent during its first year (from 2.2% to less than 0.2%). This is one measure of the improving quality of new loans resulting from overall strengthened underwriting practices.

Also as noted by the OIG, while FHFA delegated the authority to set specific underwriting standards to the current management teams at the Enterprises, the agency continues to review, and as necessary comment on, changes in credit policy. Further, to stress the importance of improving overall underwriting standards, FHFA as conservator of the Enterprises has included measures of new loan quality in both Enterprise management corporate "scorecards," which impacts management compensation. Last but not least, FHFA 2011 examination plans included supervisory activities directed at testing the implementation of underwriting activities at the Enterprises. We believe the current approach to overseeing underwriting standards at the Enterprises has been effective in recent years as reflected in the improved acquisition profile of recent vintage loans.

For example, the improvement in the acquisition profile can be seen in the weighted average credit score of newly acquired loans which increased 45 points from 2006 to November 2011. Total loan-to-value (LTV) also declined from highs of more than 78% in 2007 to 72% in November 2011. It is important to recognize that the 2008 and 2009 volumes include a greater proportion of higher LTV loans because of HARP.[1] Debt-to-income (DTI) also improved from 39.1% in 2006 to 33.4% in November 2011. Further, since 2007, acquisitions of loans with interest-only and Alt-A features, which represent the majority of credit losses, have fallen to near zero as the result of strengthening underwriting standards.

While we believe FHFA's approach to overseeing underwriting standards has been effective, we appreciate the OIG's specific recommendations for improvement, which are repeated below with our responses.

FHFA Response to Report Recommendations

The Report includes two recommendations. FHFA-OIG recommends that:

> Recommendation 1: *The Division of Housing Mission and Goals formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.*
>
> Management Response: FHFA agrees that formal procedures for the review of changes to underwriting standards are needed. Since its inception in 2011, the Office of Housing and Regulatory Policy has proactively worked to establish a system to track and a process to review and monitor changes to enterprise underwriting standards. The Office followed the process, but had not yet issued the formal guidance as it continues to change and improve.
>
> The Division of Housing Mission and Goals, Office of Housing and Regulatory Policy, will enhance existing review processes for changes in enterprise underwriting standards to include variances, and formalize and implement procedures.
>
> Written guidance will include the objectives to be achieved in the reviews, how the reviews will be performed, the monitoring and controls governing the process, and the means to escalate unresolved issues for decision. A message requiring adherence to the guidance will be issued from the Associate Director, Office of Housing and Regulatory Policy.
>
> The review procedures and written guidance will be completed by September 30, 2012 and a final status update on the implementation will be provided to the OIG by March 1, 2013.

[1] Approximately 4% of 2010 acquisitions and 9% of November 2011 acquisitions were HARP.

Recommendation 2: *Division of Examination Program and Support enhance existing examination guidance for assessing adherence to underwriting standards and variances to them.*

Management Response: FHFA agrees with this recommendation and will assess whether guidance, existing and under development, addresses this recommendation or whether further guidance is needed. Currently, the *FHFA Division of Enterprise Regulation Supervision Reference and Procedures Manual* serves as examination guidance and includes a module on "Credit Risk-Single Family." Page 12 of this module discusses reviewing loan and property types, including underwriting criteria like LTV, FICO, geographic concentrations, and reviewing "...underwriting processes and controls to ensure acquisitions meet corporate guidelines." FHFA is also currently developing and testing a common examination manual, which will be reviewed as we assess whether more specific examiner guidance related to assessing adherence to underwriting standards is needed.

The Division of Examination Programs and Support, Office of Examination Standards will complete its assessment of the need for further examiner guidance by June 30, 2012. If additional guidance is warranted, it will be developed by March 1, 2013.

APPENDIX B: FHFA-OIG's Response to FHFA's Comments

On March 2, 2012, FHFA provided comments to a draft of this report, agreeing with both recommendations and identifying FHFA actions to address them. FHFA-OIG considers the actions sufficient to resolve the recommendations, which will remain open until FHFA-OIG determines that agreed upon corrective actions are completed and responsive to the recommendations. *See* Appendix C of this report for a summary of management's comments on the recommendations.

On February 21, 2012, FHFA sent Congress the Agency's Strategic Plan for Fannie Mae and Freddie Mac conservatorships. Among other things, the plan addresses reducing the Enterprises' risk exposure through appropriate mortgage underwriting and pricing. The plan states such actions are consistent with what would be expected of a private sector company operating without government support. One of the improvements proposed by FHFA to achieve its strategic goals is the Uniform Mortgage Data Program, which is intended to improve the consistency, quality, and uniformity of data collected at the beginning of the lending process. FHFA reports that developing standard terms, definitions, and industry standard data reporting protocols will decrease costs for originators and appraisers and reduce repurchase risk.

FHFA's plan also identified elements of a future secondary mortgage market infrastructure that included a standardized pooling and servicing agreement that replaces the Enterprises' current Servicer Participation Agreements and corrects many shortcomings found in the pooling and servicing agreements used in the private-label MBS market. The plan states that developing and implementing standards for underwriting, disclosures and servicing are part of creating a robust and standardized pooling and servicing agreement that would be a part of the future infrastructure. FHFA reported that developing these standards will not only correct past problems, it will make the existing system better. Finally, FHFA concluded that because the point of a secondary mortgage market is to operate an infrastructure that most efficiently brings investor capital to individual families seeking to finance a home, standards must be more transparent and accessible for both of these end-users.

FHFA-OIG's recommendation to establish a review process for underwriting standards and variances is consistent with and supportive of FHFA's Strategic Plan goals related to developing and implementing underwriting standards, which are presently not subject to an established review process intended to ensure that the standards and related variances achieve the goals. In fact, the objectives to be achieved in the current review process, how the review process performs, and related monitoring have not been defined by FHFA. Such objectives could include aligning Enterprise underwriting standards to achieve greater uniformity in the underlying mortgage product as well as efficiency and effectiveness in the secondary mortgage market either as part of the current or a future mortgage market infrastructure. FHFA-OIG plans a follow-up audit to more fully assess the use of aligned underwriting standards by the Enterprises related to achieving these objectives.

APPENDIX C: Summary of Management's Comments on the Recommendations

This table presents the management response to the recommendations in FHFA-OIG's report and the status of the recommendations as of the date of report issuance.

Rec. No.	*Corrective Action: Taken or Planned*	*Expected Completion Date*	*Monetary Benefits ($ Millions)*	*Resolve: Yes or No*	*Open or Closed*
1.	The Division of Housing Mission and Goals, Office of Housing and Regulatory Policy, will enhance existing review processes for changes in Enterprise underwriting standards to include variances, and formalize and implement procedures. Written guidance will include the objectives to be achieved in the reviews, how the reviews will be performed, the monitoring and controls governing the process, and the means to escalate unresolved issues for decision. A message requiring adherence to the guidance will be issued from the Associate Director, Office of Housing and Regulatory Policy.	9/30/12	$0	Yes	Open
2.	FHFA will assess whether guidance, existing and under development, addresses this recommendation or whether further guidance is needed. Currently, FHFA's Division of Enterprise Regulation's Supervision Reference and Procedures Manual serves as examination guidance and includes a module on "Credit Risk-Single Family." Page 12 of this module discusses reviewing loan and property types, including underwriting criteria like LTV, FICO, geographic concentrations, and reviewing ". . . underwriting processes and controls to ensure acquisitions meet corporate guidelines." FHFA is also currently developing and testing a common examination manual, which will be reviewed as FHFA assesses whether more specific examiner guidance related to assessing adherence to underwriting standards is needed. FHFA's Division of Examination Programs and Support, Office of Examination Standards, will complete its assessment of the need for further examiner guidance by June 30, 2012. If additional guidance is warranted, it will be developed by March 1, 2013.	3/1/13	$0	Yes	Open

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