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# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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May 29, 2013

The Honorable Carol Galante  
Commissioner  
Federal Housing Administration  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

Dear Ms. Galante:

The Committee on Oversight and Government Reform is investigating the fiscal state of the Federal Housing Administration. On January 11, 2013, I wrote Integrated Financial Engineering Inc. (IFE Group), an actuarial consulting firm hired by FHA, to inquire about the company's performance of the Fiscal Year 2012 actuarial review of FHA's mutual mortgage insurance (MMI) Fund.<sup>1</sup> In this actuarial review, IFE Group reported that the MMI Fund is underfunded by \$13.5 billion.<sup>2</sup> However, documents obtained from IFE Group indicate that the Fund's true liability may be as high as \$115 billion under severe economic circumstances and that FHA may have encouraged IFE Group to obfuscate this fact from Congress. Given these troubling revelations, I ask for your assistance with our investigation.

The typical actuarial review represents the fiscal state of FHA's MMI Fund under a variety of economic scenarios. To measure the Fund's health, FHA sought to use a well-known stress test in the FY 2012 review, or, in the words of Charles Capone, Director of FHA's Office of Evaluation: "[S]omething that has acceptability/prior-use in the financial services industry."<sup>3</sup> The Federal Reserve Board's annual Comprehensive Capital Analysis and Review (CCAR) was selected, undoubtedly because "[t]he CCAR is a rigorous exercise to evaluate the capital planning processes and capital adequacy of the largest bank holding companies."<sup>4</sup> IFE Group developed scenarios for the performance of FHA's MMI Fund in accordance with CCAR. The

<sup>1</sup> See Letter from Rep. Darrell E. Issa, Chairman, H. Cmte. on Oversight & Gov't Reform, to Tyler T. Yang, Chairman & CEO, Integrated Financial Engineering Inc., (Jan. 11, 2013).

<sup>2</sup> *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2012*, (Nov. 5, 2012), Prepared for the U.S. Dep't of Housing and Urban Development by Integrated Financial Engineering, Inc.

<sup>3</sup> Email from Charles A. Capone, U.S. Dep't of Housing and Urban Development, to Tyler Yang, Integrated Financial Engineering Inc., & Benjamin Pegg (Apr. 10, 2012, 4:37 p.m.). [IFE0008857]

<sup>4</sup> Federal Reserve Bank press release, March, 2012, (accessed May 16, 2013), *available at* <http://www.federalreserve.gov/newsevents/press/bcreg/20120312a.htm>

results of the CCAR stress test showed that the MMI Fund would have had a negative economic value of \$115 billion for FY 2012 under severe economic conditions, far in excess of the 2012 base case scenario which had a negative economic value of \$15 billion,<sup>5</sup> which itself was a distressingly large drop from the 2011 base case scenario which had a positive economic value of \$1 billion.<sup>6</sup>

Documents and communications produced to the Committee by IFE Group clearly show that FHA was determined to avoid disclosing the magnitude of the FHA's capital inadequacy under the Fed's CCAR, therefore depriving Congress of meaningful and relevant information central to its oversight function. On April 11, 2012, Deputy Assistant Secretary Frank Vetrano sent IFE Group CEO Tyler Yang an e-mail stating "we are expecting much pushback from external stakeholders" about any stress test included in the actuarial review.<sup>7</sup> IFE ultimately chose the CCAR as the stress test to use in the review, with Dr. Yang telling FHA that Congress would be most interested in seeing the "tail risk" presented in the CCAR simulation.<sup>8</sup> In a September 2012 e-mail exchange, Mr. Capone directed Dr. Yang that "[w]hen CCAR results are introduced in the Exec Sum there must be some narrative context provided before the media (or the IG) takes this and goes wild.... It also forces the political question to where it needs to be."<sup>9</sup>

Although the CCAR results were included in several early drafts of the actuarial report and even a power point presentation marked "confidential",<sup>10</sup> it appears that FHA directed the results to be removed from the final report presented to Congress.<sup>11</sup> In an e-mail dated October 11, 2012, referencing edits to the report and a meeting with you on October 10, Mr. Capone asked Dr. Yang, "[w]hat about the alternative scenarios presentation? You were able to change that quickly?"<sup>12</sup> Dr. Yang responded the same day: "Yes, we managed to get the results of a 20 percent run. Will insert this and delete the Fed stress test."<sup>13</sup> It therefore appears that you may have personally directed IFE Group to remove the CCAR review results from the final actuarial report. On October 12, 2012, Dr. Yang wrote to Mr. Capone: "We already deleted the Fed stress

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<sup>5</sup> See, e.g., IFE Group, *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2012 DRAFT REPORT* (Sept. 12, 2012) [IFE31390]

<sup>6</sup> *Id.*

<sup>7</sup> Email from Frank Vetrano, U.S. Dep't of Housing and Urban Development, to Tyler Yang, Integrated Financial Engineering Inc., & Benjamin Pegg (Apr. 11, 2012, 1:49 p.m.). [IFE0008856]

<sup>8</sup> Email from Tyler Yang, Integrated Financial Engineering, Inc., addressed to "Gentlemen," recipients not disclosed, (Sept. 14, 2012, 11:07 p.m.). [IFE005255-6]

<sup>9</sup> Email from Charles Capone, U.S. Dep't of Housing and Urban Development, to Tyler Yang, Integrated Financial Engineering Inc., cc Jian Chen (Apr. 11, 2012, 1:49 p.m.). [IFE0008273]

<sup>10</sup> See, e.g., IFE Group, *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2012 DRAFT REPORT* (Sept. 12, 2012) [IFE31390]; IFE Group, *FY 2012 Actuarial Review of MMI Fund, Confidential – Internal Government Document* (Sept. 25, 2012) [IFE0017006]

<sup>11</sup> See note 2, *supra*.

<sup>12</sup> Email from Charles A. Capone, U.S. Dep't of Housing and Urban Development, to Tyler Yang & Jian Chen, Integrated Financial Engineering Inc. (Oct. 11, 2012, 10:52 a.m.). [IFE0007416]

<sup>13</sup> Email from Tyler Yang, Integrated Financial Engineering Inc., to Charles A. Capone, U.S. Dep't of Housing & Urban Development, & Jian Chen, Integrated Financial Engineering, Inc. (Oct. 11, 2012, 11:17 a.m.). [IFE0007416]

test . . . , and replaced by the 20th percentile simulation result.”<sup>14</sup> Mr. Capone replied by e-mail the same day, writing:

HUD does want to have the results of the Fed CCAR and will be presenting them to Treasury on Monday. We just do not want that analysis to be in the actuarial review report for the first time this year. In Congressional hearings, it is quite possible that we will be required to present this information on-the-record, but that will be well after the actuarial review is released and the initial media coverage takes place.<sup>15</sup>

The deteriorating fiscal state of FHA continues to be of great concern to the Committee. The President’s Fiscal Year 2014 budget projects that FHA may need to draw \$943 million from the Treasury Department to cover its losses.<sup>16</sup> With as much as \$25 billion in unfunded liabilities,<sup>17</sup> FHA may be heading down the same road as the federally subsidized mortgage financiers Fannie Mae and Freddie Mac, which have collectively cost taxpayers \$137 billion since 2007.<sup>18</sup> The documents obtained by the Committee appear to suggest that senior officials at FHA may have deliberately withheld important information from Congress about FHA’s performance under severe economic stress, and that political factors may have influenced the removal of the Fed’s CCAR test results from the final actuarial report.

To assist the Committee in examining the circumstances surrounding the FY 2012 FHA actuarial review and to clarify the involvement of FHA in removing CCAR results from the final report, I respectfully request that you produce all documents and communications referring or relating to the preparation of the Fiscal Year 2012 actuarial review of FHA’s mutual mortgage insurance (MMI) Fund for the period July 1, 2011, to the present. Please provide these documents to the Committee as soon as possible, but no later than 5:00 p.m. on June 12, 2013. In addition, to assist the Committee with its oversight obligations, I request that you make yourself, Charles Capone, and Frank Vetrano available for transcribed interviews. Please contact Committee staff by Friday, June 7, 2013, to schedule these transcribed interviews.

The Committee on Oversight and Government Reform is the principal oversight committee of the House of Representatives and may at “any time” investigate “any matter” as set forth in House Rule X. An attachment to this letter provides additional information about responding to the Committee’s request. When producing documents to the Committee, please deliver production sets to the Majority Staff in Room 2157 of the Rayburn House Office Building and the Minority Staff in Room 2471 of the Rayburn House Office Building. The Committee prefers, if possible, to receive all documents in electronic format.

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<sup>14</sup> Email from Tyler Yang, Integrated Financial Engineering Inc., to Charles A. Capone, U.S. Dep’t of Housing & Urban Development (Oct. 12, 2012, 7:49 a.m.). [IFE0000340]

<sup>15</sup> *Id.*

<sup>16</sup> See Jon Prior, *Budget Projects FHA Bailout, Draws Criticism*, POLITICO, (Apr. 11, 2013).

<sup>17</sup> See, e.g., Edward J. Pinto, *How the FHA Hurts Working-Class Families and Communities*, American Enterprise Institute, (Dec. 2012).

<sup>18</sup> Nick Timiraos, *FHA Nears Need for Taxpayer Funds*, WALL ST. JRNL, Nov. 14, 2012; *The Latest Taxpayer Housing Bust*, WALL ST. JRNL, Nov. 19, 2012.

The Honorable Carol Galante  
May 29, 2013  
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If you have any questions about this request, please contact David Brewer or Katelyn Christ of the Committee Staff at 202-225-5074. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Darrell Issa", is centered on the page. The signature is fluid and cursive, with a large initial "D" and a long horizontal stroke extending to the right.

Darrell Issa  
Chairman

cc: The Honorable Elijah E. Cummings, Ranking Minority Member