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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

Tyler T. Yang, Ph.D.  
Chairman and CEO  
Integrated Financial Engineering, Inc.  
51 Monroe Street, Suite 1100  
Rockville, MD 10850

Dear Dr. Yang:

I appreciate your assistance with my January 11, 2013, inquiry about the Fiscal Year 2012 actuarial review conducted for the Federal Housing Administration by Integrated Financial Engineering, Inc. (IFE Group).<sup>1</sup> IFE Group reported that FHA's mutual mortgage insurance (MMI) Fund is underfunded by \$13.5 billion.<sup>2</sup> Documents produced to the Committee by IFE Group appear to indicate that FHA may have encouraged IFE Group to remove a scenario from the actuarial review showing that the MMI Fund could be underfunded by over \$115 billion under severe economic conditions. I therefore request your continued assistance with this inquiry.

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 actuarial 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 results of the CCAR showed that the MMI Fund would have had a negative economic value of \$115 billion for FY 2012, far in excess of the 2012 base case scenario which had a negative

<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>

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, Acting Deputy Assistant Secretary Frank Vetrano sent you 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, and you indicated to 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 informed you 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 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. In an e-mail dated October 11, 2012, referencing edits to the report and a meeting with FHA Commissioner Carol Galante on October 10, Mr. Capone asked you, "[w]hat about the alternative scenarios presentation? You were able to change that quickly?"<sup>11</sup> You 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>12</sup> October 12, 2012, you wrote to Mr. Capone: "We already deleted the Fed stress test . . . , and replaced by the 20th percentile simulation result."<sup>13</sup> It therefore appears that Commissioner Galante may have personally directed IFE Group to remove the CCAR review results from the final actuarial report. Mr. Capone replied by e-mail the same day, writing:

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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> 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>12</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]

<sup>13</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]

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>14</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>15</sup> With as much as \$25 billion in unfunded liabilities,<sup>16</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>17</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.

Therefore, to continue the Committee's investigation into the drafting of the FY 2012 FHA actuarial review and to clarify who directed that IFE Group remove the CCAR results from the final actuarial review report, I request that IFE Group make you, Barry Dennis, and Jian Chen available for transcribed interviews with the Committee.

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. Please contact David Brewer or Katelyn Christ of the Committee Staff at 202-225-5074 as soon as possible but no later than 5:00 p.m. on Friday, June 7, 2013, to schedule these transcribed interviews. Thank you for your attention to this matter.

Sincerely,



Darrell Issa  
Chairman

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

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<sup>14</sup> *Id.*

<sup>15</sup> See Jon Prior, *Budget Projects FHA Bailout, Draws Criticism*, POLITICO, (Apr. 11, 2013).

<sup>16</sup> See, e.g., Edward J. Pinto, *How the FHA Hurts Working-Class Families and Communities*, American Enterprise Institute, (Dec. 2012).

<sup>17</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.