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January 24, 2017

VIA ELECTRONIC TRANSMISSION

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
1700 G Street, NW
Washington, D.C. 20552

Dear Director Watt:

The Federal Housing Finance Agency (FHFA) Office of the Inspector General (OIG) recently released a management alert that raises concerns about the costs associated with the consolidation and relocation of Fannie Mae's offices in the Dallas metro area.¹ Specifically, the OIG found that FHFA's lack of oversight resulted in \$24.2 million in excessive costs for the leased building in Plano, Texas.² Apparently, the agency has failed to adequately manage its limited resources and should explain how it plans to address the issues identified in the OIG management alert.

The Housing and Economic Recovery Act of 2008 (HERA) granted FHFA sweeping conservatorship authority over Fannie Mae and Freddie Mac (collectively, the Enterprises). As such, FHFA is charged with the responsibility to "preserve and conserve" the assets of the Enterprises. It is doubtful that moving to "an area labeled the 'Platinum Corridor' because of new, high-end corporate office space"³ would be the best way to either preserve or conserve limited Enterprise resources.

In March 2015, Fannie Mae requested leasing cost data for 275,000 square feet of space as part of an effort to determine whether to stay and upgrade the current three locations or consolidate into one building. In December 2015, Fannie Mae entered a fifteen year lease "for approximately 330,000 square feet" of space to consolidate operations in one location.⁴ Yet, the

¹ FED. HOUS. FIN. AGENCY OFFICE OF INSPECTOR GEN., FANNIE MAE DALLAS REGIONAL HEADQUARTERS PROJECT 1 (2016), <https://origin.www.fhfaig.gov/Content/Files/OIG-2017-002.pdf>.

² *Id.* at 2.

³ *Id.* at 5.

⁴ *Id.* at 7.

agency couldn't provide the documentation to explain the basis for each option, why consolidation was the best choice or why the additional 55,000 square feet of space was necessary.⁵

In early December 2015, the estimated build-out costs⁶ of the proposed space "were \$220 per square foot."⁷ By May 2016, the price per square foot increased to \$234.⁸ The OIG pointed out that this was virtually identical to the \$235.35 per square foot price tag for Fannie Mae's D.C. headquarters, despite the fact that the overall cost of living in Plano was more than thirty percent lower than Washington, D.C.⁹ The OIG estimates that if the costs were appropriately discounted under Plano's demographic, costs for the Plano office would be thirty one percent lower or approximately \$160.77 per square foot.

It is inexcusable that neither Fannie Mae nor FHFA have conducted an appropriate review to determine the reasonableness of the lease or the budgeted build-out costs for this project. Fannie Mae cannot provide proper documentation for its decision-making process, and it appears FHFA is relying on "monthly dashboard reports" that don't provide "sufficient information for it to assess whether Fannie Mae's [lease plans] are consistent with the conservator's goals or appropriate for an entity in conservatorship."¹⁰ As an agency charged with oversight of the mortgage market, Fannie Mae has an even greater responsibility to effectively manage its own real estate project(s) and to do so in a manner that is not wasteful of taxpayer dollars.

Therefore, please answer the following questions:

1. Please provide all procurement records used to determine that consolidation and relocation of offices was the most cost effective decision.
2. Please provide all documentation to determine that Plano, TX was the most cost effective location for the new office space. This should include the list of all locations considered and the list of factors and weight given to each during the selection process.
3. Please explain Fannie Mae's initial determination for 275,000 square feet for the Dallas office and the signed lease for 330,000 square feet.
4. Please document the total number of employees currently working in the Dallas offices. Please also provide the total number of those employees who have their own office and

⁵ *Id.* at 4.

⁶ "A key component of any lease negotiation is the tenant improvement allowance provided by the landlord to build-out or retrofit an office space for the tenant's specific use. The amount of the tenant improvement allowance, as well as the length of the lease term have a significant impact on the negotiated rental rate. Coy Davidson, *Negotiating the Tenant Improvement Allowance*, THE TENANT ADVISOR (Nov. 14, 2010), <http://www.coydavidson.com/leasing-tips/negotiating-the-tenant-improvement-allowance/>.

⁷ FED. HOUS. FIN. AGENCY OFFICE OF INSPECTOR GEN., FANNIE MAE DALLAS REGIONAL HEADQUARTERS PROJECT 6 (2016), <https://origin.www.fhfaig.gov/Content/Files/OIG-2017-002.pdf>.

⁸ *Id.* at 2.

⁹ *Id.* at 8.

¹⁰ *Id.* at 11.

the square footage of each office, the total number of employees that will have individual offices after the consolidation and the square footage of each of those offices, as well as floor plans for each floor of the Granite Park VII office building.

5. Please provide a comprehensive list of all office furniture and furnishings, including art and other decor, for the new Granite Park VII building, to include the price for each item.
6. Please provide all documentation used in determining the budgeted build-out costs for the Granite Park VII office space in Plano.
 - a. Include all consulting and contractor fees incurred to facilitate the efforts, including architects, leasing and other experts, and legal fees.
 - b. Please explain why FHFA has refused to review and request documentation from Fannie Mae to justify the Granite Park VII build-out project costs.
 - c. Why was FHFA unable to provide documentation supporting the basis for Fannie Mae's projected build-out costs used in the August and December 2015 NPV measure?
 - d. Please explain why the build-out costs per square foot increased for the Granite Park VII office space, from \$200 to \$234.02 over a five-month period.
 - e. Did FHFA review and concur with these projected build-out costs? If not, please explain.
 - f. Please provide procurement records for the Granite Park VII lease.
 - g. To date, how much has Fannie Mae paid contractors, including construction managers and workers, electricians, plumbers, and all other relevant laborers, to work on the construction of Granite Park VII?
 - h. Provide all consulting and contractor fees incurred to facilitate the consolidation and relocation efforts, including architects, leasing and other experts, and legal fees.
7. To what extent has FHFA's internal committee instructed its retained expert to perform a reasonableness analysis of the proposed build-out of the Granite Park VII project? If none, please provide rationale.
8. Please provide all documents relating to the reasonableness analysis, as well as any decisions based on this analysis.

Thank you for your attention to this matter. Please respond by February 7, 2017. If you have any questions, please contact Janet Drew of my staff at (202) 224-5225.

Sincerely,

A handwritten signature in blue ink that reads "Chuck Grassley". The signature is written in a cursive style with a prominent "C" and "G".

Charles E. Grassley
Chairman
Senate Committee on the Judiciary

cc:

The Honorable Dianne Feinstein
Ranking Member
Senate Committee on the Judiciary

The Honorable Laura S. Wertheimer
Inspector General
Federal Housing Finance Agency