



Issue Date	February 10, 2004
Audit Case Number	2004-BO-0001

TO: John J. Coonts, Acting Deputy Assistant Secretary for Single Family
Housing, HU

FROM: 
Barry Savill, Regional Inspector General for Audit, IAGA

SUBJECT: Review of the Home Equity Conversion Mortgage Program
New England Region

INTRODUCTION

We have completed a review of the Home Equity Conversion Mortgage (HECM) Program. The specific objectives were to: (a) assess the adequacy of internal controls; (b) identify areas susceptible to material deficiencies, problems or weaknesses; and (c) determine whether a comprehensive audit was warranted, including any follow-on audit work at other locations. Our review was limited to loans endorsed for insurance in the New England Region (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) between October 1, 1999, and September 30, 2002. The New England Region is considered a high priced housing market, which represents a potentially higher risk for HUD, because the maximum dollar amount that HUD will pay on a claim for insurance benefits is based on a property's value.

In conducting the review, we:

- Reviewed applicable HUD handbooks, regulations, mortgagee letters, and other reports and policies related to the HECM Program.
- Interviewed personnel within the HUD Philadelphia Homeownership Center (HOC), HUD Headquarters Office of Single Family, HUD National Servicing and Loss Mitigation Center (NSLMC) - Tulsa Branch, and servicing mortgagees to gain an understanding of the HECM policies, quality controls, and servicing procedures.

- Reviewed the Evaluation Reports of the Federal Housing Administration’s (FHA’s) Home Equity Conversion Mortgage Insurance Demonstration dated March 15, 1995, and March 31, 2000, prepared by a consultant under contract with HUD.
- Reviewed the HECM Payment Plan software used by lenders to calculate the maximum funds available to the borrower(s) and HECM payment plan options.
- Used Computer Assisted Audit Tools (CAATS) to extract electronic data from the HUD Single Family Data Warehouse (SFDW) to identify the total number of HECM loans endorsed nationwide since program inception (65,026), and to calculate various statistics and totals on the endorsed HECM loans.
- Extracted HECM loans endorsed in New England between October 1, 1999, and September 30, 2002, to establish our universe of 1,680 loans and identified statistics and trends in HECM claims paid during our audit period in New England and compared them to nationwide statistics.
- Performed a series of tests on our universe to: (1) ensure the borrower and/or co-borrower's Social Security Numbers (SSNs) were valid and issued to an individual 62 years of age or older; (2) verify that the “date of birth” field in HUD systems represented individual borrowers 62 years of age or older; and (3) verify the “street address” field in HUD systems to determine if any cases listed a “P.O. Box” versus a residential address.
- Generated a statistical sample of 74 HECM loans and tested the sample to determine if: (1) lenders were following the processing requirements of the HECM Program; (2) HUD properly monitored lenders to ensure they follow HECM Program requirements; and (3) servicing mortgagees were following servicing procedures. We also determined whether all borrowers met eligibility requirements and received counseling, and if mortgage files were consistent and accurate. We projected the results over the universe of 1,680 loans.
- Generated a statistical sample of 54 HECM loans that had funds set aside for repairs of less than \$25,000 and tested the sample to determine if repairs were completed timely and adequately. We projected the results over the universe of 494 loans.
- Performed a review of all HECM loans with \$25,000 or more set aside for repairs (15 total) and tested the sample to determine if repairs were completed timely and adequately.
- Performed a review of an additional 15 HECM loans with conflicting endorsement data in the Philadelphia HOC’s jurisdiction to determine whether HUD properly endorsed the loans and whether the lender had paid the appropriate amount of Mortgage Insurance Premiums (MIP) on endorsed loans.
- Included audit steps to: ensure that the same name, address, and SSNs of the borrower and co-borrowers were on all documents in each case file; ensure that reasonable appraisal adjustments and comparable homes were used on the property appraisal forms;

and identify any previous sales amounts that were significantly greater than the current value of the home without explanation.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS).

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for recommendation 4A (originally recommendation 5A in the draft report), a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit. In addition, since we concur with your proposed management decisions and target dates for implementation of recommendations 1A, 2A, and 3A, please coordinate with our office to ensure final disposition of your proposed actions.

Should you or your staff have any questions, please contact Michael Motulski, Assistant Regional Inspector General for Audit, in our office at (617) 994-8380.

SUMMARY

Although our scope was limited to the New England Region, we generally found the HECM Program to be a sound and beneficial program for elderly homeowners and their families. However, we made four minor observations that if properly addressed, will further strengthen the program. These observations included: (1) cases with inaccurate calculations of principal limit; (2) cases where repairs were not documented or completed in a timely manner; 3) a potential housing counseling conflict of interest; and (4) lack of controls over data reliability in HUD's systems. This audit memorandum report presents appropriate recommendations for each observation.

The draft audit memorandum report initially discussed a fifth observation regarding cases that lacked required documentation for endorsement. However, upon further review of Mortgagee Letter 97-38, we withdrew the initial observation and corresponding recommendation because the Mortgagee Letter effectively eliminated the requirement for three of the documents identified as lacking during our review. In addition, we concur with the HUD management decision to use a revised HECM Pre-Endorsement Review Checklist (see [Appendix B](#)).

BACKGROUND

The Housing and Community Development Act of 1987 (P.L. 100-242, 2/5/88) established a Federal mortgage insurance program (Section 255 of the National Housing Act) to insure home equity conversion mortgages. The Department of Housing and Urban Development (HUD) administers the HECM Program. Pursuant to the 1987 Act, HUD was authorized to insure 2,500 of these mortgages and allocate them among the ten Regional Offices of HUD in proportion to each Region's share of the nation's elderly homeowners. The Regional HUD-Offices of Housing

then distributed the reservations among lender applicants using a random selection method. In 1990, the Omnibus Budget Reconciliation Act (P.L. 101-508, 11/5/90) increased HUD's insurance authority to 25,000 mortgages; and terminated the reservation system, allowing all FHA approved lenders to participate in the HECM Program.

The purpose of the HECM Program is to enable elderly homeowner families to stay in their home while using some of its accumulated equity. The program allows a household to obtain an insured reverse mortgage (a mortgage that converts equity into income). Because elderly persons can be vulnerable to fraudulent practices, the program requires that participants receive free reverse mortgage counseling from a HUD-approved mortgage counseling agency, before applying for a reverse mortgage. FHA insures HECM loans to protect lenders against a loss if amounts withdrawn exceed equity when the property is sold.

In 1993, HUD initiated a reinvention effort to streamline HUD operations and reduce costs. FHA also began consolidating its mortgage insurance processing, claims, and property disposition activities into four HOCs located Denver, CO, Santa Ana, CA, Atlanta, GA, and Philadelphia, PA. The Philadelphia HOC serves the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, and the District of Columbia. The Philadelphia HOC uses an endorsement contractor (Management Solutions of America, Inc.) for its endorsement activities.

The HECM Program is quickly becoming a popular program among our senior citizens. Our review disclosed that 65,026 HECM loans were endorsed Nationwide by HUD from inception of the HECM Program to December 2002, and the total maximum claim amount insured by HUD was \$8,031,039,932 (the maximum dollar amount that HUD will pay on a claim for insurance benefits). Lenders closed a record 13,049 federally insured reverse mortgage loans in the federal fiscal year ending September 30, 2002, 63 percent more than the old mark of 7,982 set in fiscal year 1999, according to the National Reverse Mortgage Lenders Association. The volume in fiscal year 2001 was 7,781. HECM accounts for roughly 95 percent of all reverse mortgage loans made in the United States. We focused our review on endorsed HECM loans in New England and our review disclosed that HUD endorsed 1,680 loans during our audit period and the total maximum claim amount was \$275,819,320.

FINDING 1

(INACCURATE CALCULATION OF PRINCIPAL LIMIT)

The calculation of the mortgage principal limit was not accurate in 3 of the 74 sample case files we reviewed (four percent - estimate of actual error). The principal limit is the amount that a borrower can receive from a HECM loan. This was because the lender used incorrect information from the files. Specifically, the lender incorrectly used the age of the oldest borrower. As a result, these three loans were overstated by a total of \$9,921, an average of \$3,307 per loan. Based on our estimate of the actual error rate of four percent and our universe of 1,680 loans, we projected that 67 (four percent of the total of 1,680) of the HECM loans were

overstated by an average of \$3,307 per loan, or a total of \$221,570 for all of the loans. This represents less than one percent ($\$221,570 / \$275,819,320$) of the total maximum claim amount for these loans. However, HUD can obtain similar cost savings on future loans if HUD implements our recommendation.

As part of the HECM pre-endorsement process, there is a requirement that the calculation of the principal limit and monthly payment amount be performed by lenders and be noted in the case file. However, there was no procedure in place for the HUD endorsement contractor to verify that the information used in these calculations was correct and based on information available in the file.

HUD Handbook 4235.1 Rev-1, Section 1-4 Principal Limit, states that the amount the borrower can receive from a reverse mortgage is determined by calculating the mortgage principal limit. This handbook section also states that the age of the youngest borrower, the expected average mortgage interest rate, and the maximum claim amount determines the principal limit at origination.

Recommendation

We recommend that the Philadelphia HOC:

- 1A. Establish a quality control plan for the review of HECM loans that will avoid overstatements similar to the \$221,570 identified due to incorrect information used in HECM calculations; OR require its endorsement contractor to update its pre-endorsement procedures to include a requirement for verification of information used in HECM calculations.

Auditee Comments

The following is an excerpt from HUD's complete written response (see [Appendix B](#)):

“We will ensure that a certain percentage of the files selected for post-endorsement technical review are HECM cases. The post endorsement technical review of a HECM case will include verification of information used in HECM calculations. The new procedures will be implemented for all HOCs no later than March 31, 2004.”

OIG Evaluation of Auditee Comments

We concur with HUD's management decision and proposed implementation date of March 31, 2004.

FINDING 2

(REPAIRS NOT DOCUMENTED OR COMPLETED IN A TIMELY MANNER)

We determined that the lender did not complete form HUD-92051, Compliance Inspection Report, in 4 of the 54 case files we reviewed that had repair rider agreements (7.41 percent - estimate of actual error) to document that repairs were finished in accordance with these agreements. We also noted that lenders did not ensure that borrowers completed repairs timely. In addition, lenders did not follow proper procedures for granting extensions for completing the repairs, and the lenders did not stop payments in another 4 of the 54 case files with repair rider agreements (7.41 percent - estimate of actual error). As a safeguard against declining home values and to maintain decent and safe housing because of incomplete repairs, HUD requires the lender to discontinue payments on the loan, except to fund repairs and mandatory items such as property charges and monthly insurance premiums (MIP).

Through other audit procedures, we determined that many repairs were completed, but lenders did not understand the HUD requirement for completing form HUD-92051. In addition, we did not consider many of the repairs observed to be immediate life-threatening health and safety concerns or issues that would significantly affect the value of the homes insured. These repairs included painting, caulking, installation of small handrails, and earthquake strapping for water heaters.

HUD Handbook 4235.1 Rev-1, Section 3-5B, requires that, at closing, the borrower establish a repair set aside equal to at least 150 percent of the cost of repairs, plus the repair administration fee. Borrowers cannot draw these funds set aside until the repairs are completed. As the borrower completes repairs, the lender disburses the necessary funds from the line of credit; and the lender must ensure the removal of all liens. After the repairs are completed, if additional funds remain in the total amount set aside, the lender must transfer those funds to a line of credit and inform the borrower of the amount transferred. Title 24 of the Code of Federal Regulations (CFR), Section 206.47, stipulates that before the release of funds set aside for repairs, the mortgagee shall have an inspection of the property performed to ensure that the repair work is satisfactory. Lenders use HUD Form 92051 to document the completion of the repairs.

We found that technical reviews of HECM loans at the Philadelphia HOC ceased for a time before our review and commenced again after we began our audit. Results of the latest technical reviews indicated other similar repair issues.

Recommendation

We recommend that the Philadelphia HOC:

- 2A. Strengthen procedures to ensure that lenders are adhering to the provisions of the repair rider agreements.

Auditee Comments

The following is an excerpt from HUD's complete written response (see [Appendix B](#)):

“To ensure that lenders are adhering to the provisions of the repair rider agreements, FHA will design a new set of procedures to more closely monitor compliance with the program requirement. The new procedures will be developed by the third quarter of FY2004 and will take effect no later than September 30, 2004.”

OIG Evaluation of Auditee Comments

We concur with HUD's management decision and proposed implementation date of September 30, 2004.

FINDING 3

(POTENTIAL HOUSING COUNSELING CONFLICT OF INTEREST)

Reverse mortgage housing counseling was provided by an agency that also held and serviced the mortgage on the client's property, an apparent conflict of interest, in 4 of the 74 case files we reviewed (5.41 percent - estimate of actual error rate). This issue occurred with only one originating mortgagee identified in our review, the Rhode Island Housing & Mortgage Finance Corporation (RIHMFC). We determined that RIHMFC originated 142 HECM loans during our audit period. Based on the total loans, we determined that 8.5 percent (142/1,680) of the HECM loans in our universe received counseling from RIHMFC, an agency that had an interest that may have compromised their ability to represent their clients' best interests. RIHMFC accounts for the majority of HECM loans in the State of Rhode Island, and HUD has given RIHMFC permission to operate as a borrower counselor, a lender, and a servicer under the HECM Program. We requested copies of records documenting the underlying basis of the approval by HUD for RIHMFC to operate in this manner; however, HUD was unable to provide us with any such documentation.

HUD Handbook 7610.1 Rev. 4, Housing Counseling Program Handbook, Chapter 5, Sec. 5-1 E, states that housing counseling agencies must represent its clients without any conflict of interest. HUD considers a conflict to exist when the counseling agency has any interest in the matter relating to the client, such as when the housing counseling agency holds or services the mortgage on the client's property.

Recommendation

We recommend that the Philadelphia HOC:

- 3A. Review the status of RIHMFC as a HECM counselor, lender, and servicer, and determine if a conflict of interest exists. If a conflict does exist, HUD should take appropriate corrective action.

Auditee Comments

The following is an excerpt from HUD's complete written response (see [Appendix B](#)):

“[RIHMFC] no longer services HECM loans. However, [RIHMFC] is serving as a loan correspondent, taking applications for HECM mortgages, and offering HECM counseling services. To ensure no conflict of interest exists, FHA will require [RIHMFC] to discontinue its HECM counseling activities. The elimination of [RIHMFC's] counseling services was implemented [01/13/04]. The transfer of HECM counseling services to another housing counseling agency in the state of Rhode Island will occur no later than March 31, 2004.”

OIG Evaluation of Auditee Comments

We concur with HUD's management decision and proposed implementation date of March 31, 2004.

FINDING 4

(LACK OF CONTROLS OVER DATA RELIABILITY IN HUD'S SYSTEMS)

The data shared between various HUD information systems were not always compatible among the separate systems, and did not always coincide with data shared in HECM case files. We could not readily determine if the Philadelphia HOC properly endorsed 14 HECM loans ([Appendix C](#)) due to conflicting information in HUD's systems (endorsed per one system, but not the other) or with conflicting information in the case files. Furthermore, upon review of the HUD HECM Application System, we are not able to determine whether 6 of the 14 loans, if they were properly endorsed, paid the initial 2 percent in monthly insurance premiums (MIP) and continued to pay monthly MIP throughout the life of the loan as required. HUD uses the HECM Application System for the collection of the initial and monthly MIP payments. However, these 14 cases only represent less than one percent (14 / 1,680) of the total loans endorsed during our audit period.

In addition, data in HUD's Single Family Data Warehouse (SFDW) did not always coincide with the data in HUD's HECM case files. In our review of HECM case files, we identified instances where lenders entered inaccurate information, such as the borrower's SSN and date of birth, into the system (see “Inaccurate Calculation of Principal Limit” above). The Credit Alert Interactive Voice Response System (CAIVRS) uses SSNs to determine if the borrower was delinquent or had a claim paid on a loan made or insured by HUD. In addition, HECM calculations used date of birth information, and any errors in the date of birth potentially increased and/or decreased the mortgage principal limit the borrower would be entitled to receive. The HUD Office of the Chief Information Officer (OCIO) plans to initiate a data-quality improvement project, including aspects of the HECM Program. The purpose of this project is to ensure that performance data is reliable and can be accurately reported in HUD's financial statements and should address and resolve the issues we identified. The OIG is also evaluating this progress. Thus, we determined

that no additional audit effort was necessary and we made no recommendations with regard to this issue.

OMB Circular A-127 provides that financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. In addition, appropriate internal controls shall be applied to all system inputs, processing, and outputs.

Recommendation

We recommend that the Philadelphia HOC:

- 4A. Review the specific 14 loans in question ([Appendix C](#)) and determine if the lenders followed program requirements, including the payment of MIP, and take appropriate action if required. Verification of MIP should include the amount of the initial MIP remitted, cumulative MIP remitted to date, and the source of this information.

Auditee Comments

The following is an excerpt from HUD's complete written response (see [Appendix B](#)):

“This office reviewed the cases and found that in all but one case (FHA Case #441-6055340), the mortgagees submitted case binders with all of the documents required for insurance endorsement. See the attached chart for all details on each case reviewed. FHA Case #441-6055340 lacked the second note, the second mortgage and HUD-1 Form. FHA will request that the lender resubmit the missing documents no later than March 31, 2004, and will take appropriate action, if necessary.”

OIG Evaluation of Auditee Comments

We concur with HUD's management decision to follow-up on missing documents for FHA Case #441-6055340. However, HUD did not review case file #352-3996854 and indicated that the file was “not provided for review.” We recommend that HUD review this case further and provide more information. Furthermore, the results of the HUD review did not provide enough information regarding the payment of MIP in order for us to verify that lenders collected and remitted MIP to HUD as required (such as the amount of the initial MIP remitted, cumulative MIP remitted to date, and the source of this information). We revised [Appendix C](#) to include which loans exhibited concerns over MIP. We also expanded the recommendation contained in our draft report to verify all MIP data and provide the source of the information.

MANAGEMENT CONTROLS

In planning and performing our audit, we obtained an understanding of the management controls used by the Philadelphia HOC that were relevant to our audit objectives. We reviewed the

Philadelphia HOC's management control systems to determine our auditing procedures and not to provide assurance on management controls.

Management controls consist of a plan, organization, methods, and/or procedures adopted by management to ensure that planned goals are met; resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

We determined that the following management controls were relevant to our audit objectives:

- Controls over program operations;
- Controls over the validity and reliability of data; and
- Compliance with laws and regulations.

Controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. Controls over the validity and reliability of data include policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management that it is receiving valid and reliable information. Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives. Based on our review, we do not believe there are any significant weaknesses.

FOLLOW-UP ON PRIOR AUDITS

This is the first OIG review of the HECM Program.

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

Recommendation Number	Type of Questioned Costs			Funds Put To Better Use ⁴
	Ineligible ¹	Unsupported ²	Unnecessary/Unreasonable ³	
1A				\$221,570

1. Ineligible costs are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.
2. Unsupported costs are those whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation. A legal opinion or administrative determination may be needed on these costs.
3. Unnecessary/unreasonable costs are those that are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. A legal opinion or administrative determination may be needed on these costs.
4. Funds Put to Better Use quantify monetary savings from management actions, in response to OIG recommendations that prevent improper obligations or expenditures of agency funds or avoid unnecessary expenditures. Categories of funds put to better use include:
 - A. Reductions in outlays;
 - B. De-obligation of funds from programs or operations;
 - C. Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
 - D. Loans and guarantees HUD has decided not to make, based on OIG recommendations;
 - E. Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;
 - F. Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or
 - G. Any other savings, which are specifically identified.

AUDITEE COMMENTS



JAN 15 2004

U.S. Department of Housing and Urban Development

Homeownership Center
The Wanamaker Building
100 Penn Square East
Philadelphia, Pennsylvania 19107-3389

MEMORANDUM FOR: Barry Savill, Regional Inspector General for Audit, IAGA

FROM: John J. Coonts, Acting Deputy Assistant Secretary
For Single Family Housing, HU

SUBJECT: Draft audit report of the Home Equity Conversion Mortgage Program
New England Region

Thank you for the draft report regarding the Home Equity Conversion Mortgage (HECM) Program. Single Family Housing's responses to your recommendations and findings are listed below.

Responses to Recommendations/Strengthening the Program:

Recommendation 1A:

Establish a quality control plan for the review of HECM loans that will avoid incorrect information being used in the calculation; or require the endorsement contractor to update its endorsement procedures to include a requirement for verification of information used in HECM calculations.

FHA Response 1A:

We will ensure that a certain percentage of the files selected for post-endorsement technical review are HECM cases. The post endorsement technical review of a HECM case will include the verification of information used in HECM calculations. The new procedures will be implemented for all HOCs no later than March 31, 2004.

Recommendation 2A:

Ensure that the required documents are maintained in the case files after endorsement.

FHA Response 2A:

The Office of Housing will require that the four Homeownership Centers use the revised HECM Pre-Endorsement Review Checklist (see attached), which incorporates the most recent published guidance for processing HECM cases, as defined in Mortgagee Letter 97-38. The new checklist will take effect no later than March 31, 2004.

Visit our web page at http://www.hud.gov/offices/hsg/sfh/talk/addr_phi.cfm

Recommendation 2B:

Require the endorsement contractor to update the "HECM Pre-Endorsement Review Checklist" to ensure that evidence of the following are submitted by the lender prior to endorsement: (1) hazard insurance on the property; (2) CAIVRS statement; and (3) initial MIP SOAs.

FHA Response 2A:

Mortgagee Letter 97-38 eliminated the requirement that lenders place in HUD's case binder three documents formerly required by HUD Handbook 4235.1 Rev-1: (1) hazard insurance on the property; (2) CAIVRS statement; and (3) initial MIP. The requirements announced in this mortgagee letter supersede those of Handbook 4235.1, REV1 (published in September 1994).

Recommendation 3A:

Strengthen procedures to ensure that lenders are adhering to the provisions of the repair rider agreements.

FHA Response 3A:

To ensure that lenders are adhering to the provisions of the repair rider agreements, FHA will design a new set of procedures to more closely monitor compliance with this program requirement. The new procedures will be developed by the third quarter of FY2004 and will take effect no later than September 30, 2004.

Recommendation 4A:

Review the status of RIHFA as a HECM counselor, lender, and servicer, and determine if a conflict of interest exists. If a conflict of interest does exist, HUD should take appropriate corrective action.

FHA Response 4A: RIHFA no longer services HECM loans. However, RIHFA is serving as a loan correspondent, taking applications for HECM mortgages, and offering HECM counseling services. To ensure no conflict of interest exists, FHA will require RIHFA to discontinue its HECM counseling activities. The elimination of RIHFA's counseling services was implemented 02/13/04. The transfer of HECM counseling services to another housing counseling agency in the state of Rhode Island will occur no later than March 31, 2004.

Recommendation 5A:

Review 14 loans in question to determine if the lenders followed program requirements, including the payment of MIP.

FHA Response 5A:

This office reviewed the cases and found that in all but one case (FHA Case #441-6055340), the mortgagees submitted case binders with all of the documents required for insurance endorsement. See the attached chart for details on each case reviewed. FHA Case #441-6055340 lacked the second note, the second mortgage and the HUD-1 Form. FHA will request that the lender resubmit the missing documents no later than March 31, 2004, and will take appropriate action, if necessary.

Again, thank you for providing the opportunity for input on this report. If you have any questions, please contact Gerry Glavey, Director, Processing and Underwriting Division, Philadelphia Homeownership Center at (800) 440-8647, extension 3034.

HECM PRE-ENDORSEMENT REVIEW CHECKLIST

CASE NUMBER: _____ BY: _____

A=Approved R=Rejected

- A R Late Submission Explanation (if received more than 60 days closing)
- A R Certified Copy of signed 1st Note
- A R Certified Copy of signed 1st Security Instrument (Mortgage or Deed of Trust)
- A R Signed ORIGINAL 2nd Note
- A R Signed Original (or certified copy) of 2nd Security Instrument (Mortgage/Deed of Trust)
- A R Signed HUD-1 Settlement Statement
- A R Notice to Borrower
- A R Signed Loan Agreement (shall have 3 Originals)
- A R Choice of Insurance Options
- A R Certification regarding Hotel and Transient Use (2, 3, or 4 unit properties)
- A R Evidence of Calculations (for principal limit and monthly payment amount)
- A R Final Uniform Residential Loan Application (URLA): Signed by all borrowers
- A R Addendum for URLA (HUD-92900-A), Signed and dated by the appropriate parties. Obtain DE Underwriter's name and ID# from page 3
- A R Credit Report
- A R Evidence the Mortgagor (Borrower) received counseling
- A R Evidence of Social Security Number (Social Security Card, driver's license, or 1099)
- A R Title Insurance Commitment (or other acceptable title evidence)
- A R Statement of Appraised Value (HUD-92800-5B)
- A R HUD-92564-VC Valuation Condition Form Evidence conditions have been cleared (may be HUD-92051 inspection for or cleared separately)
- A R Final Uniform Residential Appraisal Report (URAR) and complete appraisal package
- A R HUD-92564-HS Homebuyer Summary, signed and dated by all parties.

Note: Pull the following documents during review and fasten down on left side of binder: 2nd Note; 2nd Mortgage/Deed of Trust; 3 Original Loan Agreements; Notice to Borrower

March 31, 2004

HECM Reviews for cases requested by IG

CASE No.	Suffix		MIP	M- code							Problem	Y	N ?	Older	Bwr.	Explanation / comments
	not OK?	Date		Insured	Unpd	801	802	803	804	805						
251-2355108	N	10/19/1999	N	N	N	Y	N	N	N	N	N	N	N	N	No loan agmt, notice to bwr in file	
441-6055340	N	10/22/1999	N	N	N	Y	N	N	N	N	Y	Y	N	No HUD-1: 2nd note: no 2nd mtge. No loan agmt.		
541-5549777	N	10/27/1999	N	N	N	Y	N	N	N	N	N	Y	N	H2O<2.00coliform.Other chems?Ln agmt.bwr ntc.		
061-2040349	N	11/19/1999	N	N	N	Y	N	N	N	N	N	N	N	No loan agmt, notice to bwr in file. Have repr. Ridr.		
061-2041610	N	11/12/1999	N	N	Y	Y	N	N	N	N	N	N	N	No loan agmt, notice to bwr in file		
352-4074755	N	10/30/2000	N	N	N	N	N	N	N	N	N	N	N			
371-2895923	N	2/1/2001	N	N	Y	N	N	N	N	N	N	N	N	Per invc, For Prin. Limit, not max. claim amt.		
413-3895497	N	9/19/2002	N	N	Y	N	N	N	N	N	N	N	N	Title Ins. Commitment "To Be Determined."		
352-3894093	N	10/7/2002	N	N	N	N	N	N	N	N	N	N	N			
352-3996854				NOT PROVIDED FOR REVIEW												
061-2387542	N	2/20/2002	N	N	Y	N	N	N	N	N	N	N	N	N	P1 Title Ins. Missing P2 line item "amt" blank.	
412-4790576	N	7/25/2002	N	N	N	N	N	N	N	N	N	N	N	N		
413-3964189	N	12/20/2002	N	N	Y	N	N	N	N	N	N	N	N	N	Max. Claim 87K, Ins.65K, Prin. Limit.	
441-6895166	N	10/30/2002	N	N	N	N	N	N	N	N	N	N	N	N	Living trust.	

Applicable M Codes for HECMS

- M801 Age requirements not met
- M802 Title Insurance does not meet maximum claim amount
- M803* 3 copies of loan agreement missing or incomplete
- M804 Demo with calculations missing or disagrees with loan documents
- M805 Counseling certificate missing, incomplete or unacceptable
- M806 Repairs exceeding 30% of Maximum claim amount not approved by HOC
- M807 Other HECM requirements not met
- M810 Other deficiencies

Any "Y" answers to be explained.

- M803* 3 copies sent to HUD for endorsement. After endorsement, one sent to borrower, One sent to lender, and in F.O., one sent to HUD asset mgmt. Did HOC have policy to send agreements to Oklahoma City?

LOANS REQUIRING FOLLOW-UP

	<i>Case Number</i>	<i>Property Address City</i>	<i>Property Address State</i>	<i>Incomplete Data on Initial and Cumulative MIP per HECM System (HUD System Code F12)</i>
1.	061-2040349	WILTON	CT	N
2.	061-2041610	STAMFORD	CT	Y
3.	061-2387542	BETHEL	CT	N
4.	251-2355108	NEWTONVILLE	MA	Y
5.	352-3894093	PATERSON	NJ	Y
6.	352-3996854	UNION TOWNSHIP	NJ	Y
7.	352-4074755	MADISON	NJ	N
8.	371-2895923	MORRISONVILLE	NY	N
9.	412-4790576	POLAND	OH	N
10.	413-3895497	NELSONVILLE	OH	Y
11.	413-3964189	COLUMBUS	OH	N
12.	441-6055340	TOUCHKENAMON	PA	N
13.	441-6895166	PHILADELPHIA	PA	N
14.	541-5549777	EWING	VA	Y

NOTE: Before conducting comprehensive reviews of cases endorsed exclusively in the New England Region, we identified cases with potential issues requiring clarification from the universe of cases under the jurisdiction of the Philadelphia Homeownership Center (HOC). Thus, the 14 cases above include cases originating from other states outside the New England Region, but still under the jurisdiction of the Philadelphia HOC.