Audit Report

District Inspector General for Audit
Rocky Mountain District

Nationwide Review

Department of Housing and Urban Development's Loss Mitigation Program

99-DE-121-0001
September 30, 1999

U.S. Department of Housing and Urban Development
District Inspector General for Audit
633 17th Street
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Report: 99-DE-121-0001 *Issued: September 30, 1999*

TO: Frederick C. Douglas, Jr., Deputy Assistant Secretary for Single Family Housing, HU

FROM: Robert C. Gwin, District Inspector General for Audit, 8AGA

SUBJECT: Department of Housing and Urban Development's Loss Mitigation Program

We have concluded an audit of the Department of Housing and Urban Development's (HUD's) Loss Mitigation Program. This program replaced HUD's Assignment Program, effective November 12, 1996. The objectives of our audit were to determine the effectiveness of the Single Family Loss Mitigation Program, whether efforts have resulted in reduced foreclosures and increased home retention, and to evaluate the risks associated with the Program.

We could not determine at the time of our audit whether the Loss Mitigation Program will ultimately reduce foreclosures and keep families in their homes, because the majority of loss mitigation actions have occurred within the last year and currently are in process. However, we did identify three areas with significant weaknesses that could seriously impact the program's effectiveness. Specifically, HUD needs to improve its:

- review of loss mitigation claims,
- monitoring and oversight of mortgagees' use of loss mitigation tools, and
- completeness and reliability of default status data contained within the Single Family Default Monitoring System.

Within 60 days please furnish to this office, for each recommendation in this 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the courtesies and assistance extended by the personnel of the Office of Single Family Housing, the Single Family Claims Branch, the National Servicing and Loss Mitigation Division in Oklahoma City, the Quality Assurance Divisions at HUD Headquarters and within the four Home Ownership Centers, and personnel of each servicing mortgagee reviewed. Should you have any questions, please call Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

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Executive Summary

We performed a nationwide audit of HUD's Single Family Loss Mitigation Program to determine the program's effectiveness at keeping families in their homes and reducing foreclosures, as well as to evaluate the risks associated with the program. Our audit work included comprehensive reviews at four large servicing mortgagees, the Single Family Claims Branch, and the National Servicing and Loss Mitigation Division. Our audit work also included limited reviews at four small servicing mortgagees, HUD's Quality Assurance Division located in Headquarters and within the four Home Ownership Centers.

According to our analysis of HUD data, FHA has insurance in force for 6,235,000 single family dwellings, totaling over $475 billion. The four large mortgagees reviewed during our audit serviced 1,736,875 insured loans or 27 percent of FHA's insured loan portfolio. From October 1996 through May 1999, HUD paid 18,609 loss mitigation claims for the three home retention tools. The four mortgagees we reviewed were paid for 11,349 of these claims, or 61 percent, of the total claims paid.

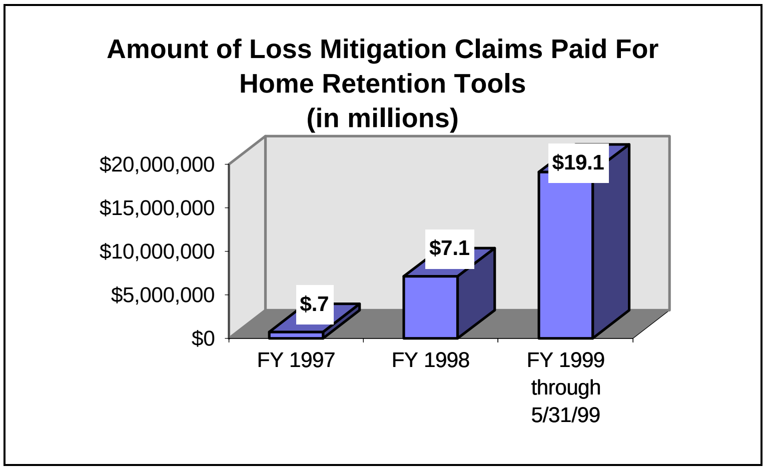
We could not determine at the time of our audit whether FHA's Loss Mitigation Program will ultimately reduce foreclosures and keep families in their homes, because the majority of the loss mitigation activities have occurred within the last year and are currently in process. However, we did identify significant weaknesses within the program that could seriously impact the program's effectiveness. The audit identified weaknesses in the following areas: incentive claim payments; monitoring and oversight of servicing mortgagees; and default status reporting. HUD needs to initiate corrective action in these areas to ensure the program is carried out more effectively and that the mortgage insurance fund is protected against unnecessary losses.

Overall effectiveness of the Loss Mitigation Program not determined

HUD expects the Loss Mitigation Program to help mortgagors retain home ownership during financial difficulties, and to reduce the number of foreclosures of FHA insured loans. As stated above, we were unable to assess whether the program has accomplished these objectives, because a majority of the loss mitigation actions taken to date have occurred in the last year and continue to be in process. Therefore, it could not be determined whether the loss mitigation actions taken would ultimately prevent borrowers from defaulting again or going into foreclosure. The ultimate success or non-success of the Loss Mitigation Program remains to be seen.

Loss mitigation claim payments increasing at rapid rate

The amount of money being paid by HUD for loss mitigation claims is rising exponentially. According to HUD Single Family Claims Branch reports, from October 1, 1996 through May 31, 1999, claims totaling $26.9 million were paid to servicing mortgagees. As can be seen by the following graph, the amount of money paid during the first eight months of FY 1999 is over two times the amount paid in the two previous fiscal years.

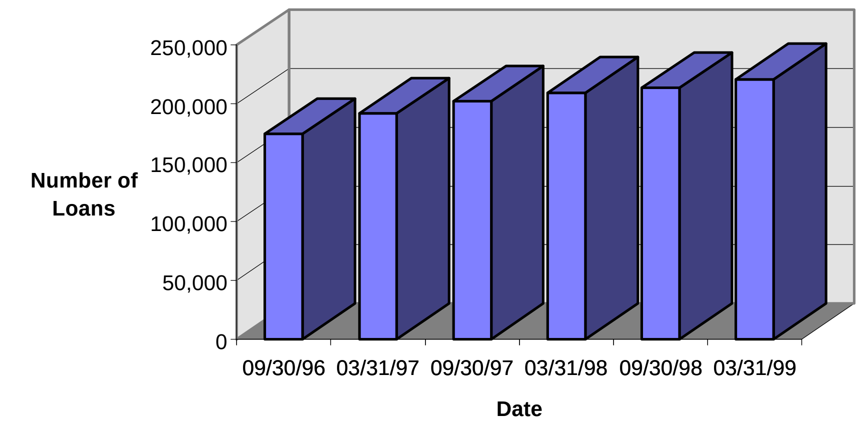


These figures are expected to continue rising. In fact, HUD estimates that 18 percent of all loans in default will utilize one of the three home retention tools, which are special forbearance, mortgage modification and partial claim. Our analysis showed that actual claims filed for the period October 1, 1996 through May 31, 1999 represented 2 percent of all loans in default during this period. If HUD's projection of 18 percent was reached, the monies paid out by HUD in loss mitigation claims could be up to $242 million. Our analysis showed that one mortgagee reviewed was paid for 801 mortgage modification claims in May 1999 alone, totaling over $600,000.

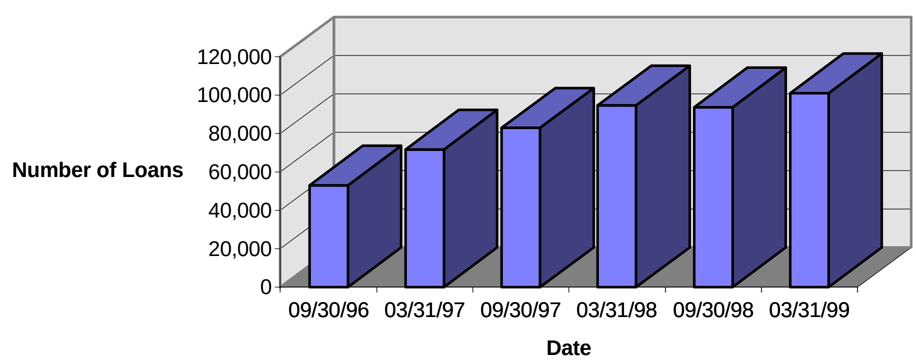
Number of loans in default and foreclosure continue to increase

Although loss mitigation claim payments are increasing at a rapid rate, default (i.e. 90 days past due) and in-foreclosure numbers for FHA insured loans continue to steadily increase (see graphs on next page). It must be noted that because there is a time lag between loss mitigation activities and foreclosure actions, and since the majority of loss mitigation activities have occurred in the last year, it is difficult to determine the ultimate success or non-success of the program. However, these statistics alone show no empirical evidence that loss mitigation tools have impacted default and foreclosure rates. In fact, loss mitigation efforts have forestalled the incidence of even higher foreclosure rates.

FHA Loans in Default



FHA Loans in Foreclosure



HUD's rates compared to VA loan program's rates

Based on data obtained from the Mortgage Banker's Association of America, we further compared FHA's default and foreclosure started rates, with the Veterans Administration (VA) loan program's default and foreclosure started rates, and determined that FHA's rates are higher. With regard to defaults, for the 15 month period ending March 31, 1999, FHA's loan default rate increased 21 percent while the VA's loan default rate increased only 2 percent. This rapid rate of increase for FHA loan defaults will only contribute to the dramatic growth in loss mitigation activities and related payments.

HUD needs to evaluate the effectiveness of individual loss mitigation tools

Due to the amount of monies currently being paid out by HUD and the projected increase in this amount, it is imperative that HUD assess the effectiveness of the Loss Mitigation Program. HUD needs to determine the program's overall impact on the reduction of foreclosures and cost to the FHA insurance fund. This has been recommended to HUD in the FY 1997 and FY 1998 FHA Financial Statement Audits through a material weakness entitled “FHA must place more emphasis on early warning and loss prevention for insured mortgages”. To date, HUD has not taken the corrective action necessary to come up with a meaningful evaluation system. Since this weakness has been identified in previous audit reports, we have addressed this issue in the audit report section entitled “Follow up on Prior Audits”. We suggest that the material weakness identified in the FY 1997 and 1998 audit reports remain open until HUD takes the appropriate corrective actions.

Significant weaknesses identified

Although we could not determine the overall effectiveness of HUD’s Loss Mitigation Program, we did identify significant weaknesses during our audit. To improve the Single Family Loss Mitigation Program, HUD needs to address the following weaknesses:

Loss mitigation claims

Improvements needed in the review of loss mitigation claims
HUD needs to improve its procedures used to review loss mitigation claims. According to Single Family Claims Branch reports, loss mitigation claims paid from October 1, 1996 through May 31, 1999 totaled $26.9 million. Our review of four mortgagees, who were paid 61 percent of this total, identified numerous payments that were questionable. More specifically, HUD paid loss mitigation claims that were not in compliance with HUD requirements, and improper incentive fee payments were made. This resulted from a lack of pre and/or post claim review procedures. Without proper claim review procedures implemented, HUD will continue to have limited assurance that eligible claims and proper payments are made.

Monitoring and oversight

Improvement needed in the monitoring and oversight of mortgagees’ use of home retention loss mitigation tools
While HUD has performed some monitoring and oversight of its servicing mortgagees, HUD has limited assurance that the servicing mortgagees are using the loss mitigation tools, and that the established procedures are being implemented. According to our analysis of HUD data, approximately 3,000 out of 3,126 servicing mortgagees, that are servicing about one million HUD insured loans, have not filed any claims for using the home retention loss mitigation tools. If lenders fail to use the home retention loss mitigation tools with its defaulting mortgagors, the mortgagors may not be furnished sufficient guidance and avenues to retain their homes. In addition, the failure to use the required home retention loss mitigation tools could have an adverse impact upon the HUD insurance fund.

In addition, our review of four servicing mortgagees that have claimed 61 percent of the total amount of loss mitigation claims paid by HUD, showed that the servicing mortgagees were not fully complying with HUD requirements.

Default status data

Default status data, contained within the Single Family Default Monitoring System, is incomplete and unreliable

HUD's ability to effectively monitor the FHA insured loan portfolio, as part of its oversight responsibility, is hampered because of inaccurate and incomplete data contained within the Single Family Default Monitoring System (SFDMS). Unreliable default status information, transmitted by servicing mortgagees to HUD, makes it difficult to assess and measure the effectiveness of FHA's loss mitigation efforts. Also, this unreliable default data impairs HUD's ability to accurately assess the potential risk and cost to the FHA insurance fund. The primary reason for the discrepancies in the default monitoring system is HUD's process for maintaining the SFDMS does not have effective controls in place to detect these errors.

Auditee comments

The audit results were discussed with HUD Officials during the course of the audit, and at an exit conference on August 24, 1999. While HUD Officials generally concurred with the three audit findings and recommendations, oral comments and suggested changes were provided to the OIG. We considered HUD's comments and made applicable changes to the audit report.

On September 29, 1999, HUD Officials provided a written response to our draft audit report. HUD Officials generally concurred with the three audit findings and related recommendations. Their response details the positive actions that are being initiated or planned to be taken in improving their implementing and monitoring of the loss mitigation program. HUD's comments and details on their corrective actions are discussed at the end of the applicable findings.

HUD Officials disagreed with two statements that were made in the draft audit report. Accordingly, we made the necessary changes or clarifications to the statements.

HUD's written response is shown in Appendix A. The response discussed several items that are contained in HUD Mortgagee Letter 99-9 dated February 23, 1999. While a copy of the entire Mortgagee Letter was attached to HUD's written comments, we did not include the Mortgagee Letter in Attachment A.

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Abbreviations:

FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
SFDMS	Single Family Default Monitoring System
VA	Veterans Administration

Introduction

BACKGROUND

Until its termination, FHA's loan assignment program was the primary alternative to foreclosure for many FHA borrowers experiencing financial difficulties. HUD's Assignment Program was terminated on April 26, 1996 by the enactment of the Balanced Budget Downpayment Act. Its replacement, FHA's Loss Mitigation Program, went into effect on November 12, 1996. The Loss Mitigation Program is expected to reduce the number of foreclosures and to significantly reduce costs associated with foreclosures. Some of the stated goals of the Loss Mitigation Program are to keep homeowners in their homes, and to mitigate losses to the insurance fund.

Under the Loss Mitigation Program, FHA compensates servicing mortgagees for their actions to mitigate losses through the use of specific loss mitigation tools. Servicing mortgagees can use the following five primary tools:

- *Special forbearance*: A special forbearance allows for a period of reduced or suspended payments for the mortgagor. This tool is designed to provide relief to borrowers with temporary financial problems, and those borrowers with the ability to pay the arrearage under the terms of the special forbearance.
- *Mortgage modification*: A mortgage modification results in the lowering of the interest rate, or the extension of the term of the mortgage, to reduce monthly payments to affordable levels for the mortgagor. Mortgage modifications are designed for borrowers who have recovered from financial distress, but whose net income has permanently dropped from its level prior to the default.
- *Partial claim*: A partial claim is essentially a second loan on a property. FHA pays the amount necessary to cure the default, and a promissory note is issued to secure repayment of the partial claim. The second loan is interest free, and is not required to be paid until the first mortgage matures, is prepaid, or the borrower vacates the property.
- *Pre-foreclosure sale*: A pre-foreclosure sale is when a borrower's home is sold prior to foreclosure and the borrower is relieved of their mortgage obligation. The borrower's debt is forgiven, and the borrower no longer faces the prospect of foreclosure.
- *Deed-in-lieu of foreclosure*: A deed-in-lieu of foreclosure is a voluntary transfer of the property deed to the lender, and is used primarily when a pre-foreclosure sale fails.

The first three tools are home retention tools, and designed to avoid foreclosure and to keep mortgagors in their homes. The latter two tools enable the mortgagor to avoid some of the consequences of foreclosure and to reduce the cost of the claim to FHA; however, the home is not retained. Our audit focused solely on the first three home retention loss mitigation tools, as this is HUD's primary goal for the Loss Mitigation Program.

Servicing mortgagees are required to review the status of each defaulted loan in their portfolio each month, and to document their loss mitigation efforts. Although servicers have some flexibility in determining which tools to use, FHA requires that all of the loss mitigation tools be considered by the servicing mortgagee throughout a loan's delinquency. Servicers are also required to report to HUD, through the Single Family Default Monitoring System, the status of all defaulted loans on a monthly basis. This report is to include the status of all previously reported defaulted loans, and the status of any loans that defaulted during the reporting period.

HUD established the National Servicing and Loss Mitigation Division (also known as the National Loss Mitigation Center) in Oklahoma City, which became fully operational in February 1998. This Center was intended to consolidate the loss mitigation function into a single centralized office, and to create a single point of contact for mortgagors and mortgagees nationwide. At the time of our audit, the Center had 29 staff assigned to loss mitigation activities. The Center has five toll free customer phone lines. Housing Specialists work as intermediaries between mortgagors facing default and their respective servicing mortgagees. The overall goal of the Center is to help mortgagors remain in their homes, and to cut losses on the FHA insurance fund. To carry out these goals, the Center is to provide foreclosure avoidance counseling to FHA homeowners in default, onsite training and monitoring of high volume servicing lenders, and to conduct large group training seminars for smaller loan servicers.

EVOLUTION OF THE PROGRAM

The utilization of home retention loss mitigation tools has increased dramatically in the last year. HUD has paid in excess of $26.9 million dollars in loss mitigation claims for the time period October 1, 1996 to May 31, 1999. Over $19 million dollars, or 71 percent of this amount, was paid in FY 1999.

SIGNIFICANT WEAKNESSES IDENTIFIED

During our review, we identified significant weaknesses with HUD's Loss Mitigation Program. The three findings contained in this report describe the weaknesses identified.

Overall audit objectives and methodology

Our overall audit objectives were to determine the effectiveness of the Single Family Loss Mitigation Program, whether the efforts resulted in reduced foreclosures and increased home retention, and to evaluate the risks associated with the Single Family Loss Mitigation Program. To accomplish these objectives, we: (1) reviewed the law and regulations governing the loss mitigation program; (2) interviewed various HUD officials from several single family program offices; (3) performed on-site reviews of four FHA approved mortgagees that have implemented loss mitigation procedures and four FHA approved mortgagees that have not implemented loss mitigation procedures; (4) performed an on-site review of HUD's Single Family Claims Branch; and (5) performed an on-site review of the National Servicing and Loss Mitigation Division.

Audit objectives and methodology of mortgagee reviews

Our audit objectives for the review of the four FHA approved mortgagees who had implemented loss mitigation procedures were to determine: (1) whether lenders were correctly implementing the loss mitigation program; (2) whether lenders were accurately reporting default and loss mitigation status information to HUD through the Single Family Default Monitoring System; (3) whether loss mitigation claims submitted by the lender and paid by HUD were eligible for payment; and (4) the current status of loans which utilized a loss mitigation tool. Our audit procedures included:

- interviewing lender officials;
- reviewing a select sample of FHA loan cases that have utilized loss mitigation tools; and
- reviewing and analyzing supporting documentation within the case files and related records.

Our audit objective for the review of the four FHA approved mortgagees who had not implemented loss mitigation procedures were to determine: why the mortgagee was not implementing loss mitigation actions. Our audit procedures included:

- interviewing lender officials; and
- reviewing pertinent file documentation.

Audit objectives and methodology of claims branch review

Our audit objectives for the review of HUD's Single Family Claims Branch were to determine whether: (1) controls existed to ensure only eligible claim payments were made in accordance with loss mitigation provisions; and (2) procedures existed to perform post claim reviews. Our audit procedures included:

- interviewing HUD and Contract officials;
- reviewing a select sample of claims paid for the three home ownership retention tools; and
- analyzing supporting documentation within Claims Branch files.

Audit objectives and methodology of loss mitigation center review

Our audit objectives for the review of the National Loss Mitigation Center were to determine: (1) what the initial and current mission, function, and goals of the Center are; and (2) whether the Center is accomplishing that mission and goals. Our audit procedures included:

- interviewing HUD officials and staff; and
- reviewing and analyzing file documentation.

HUD data systems used

To achieve our audit objectives, we relied on data within HUD's Single Family Default Monitoring System and HUD's Loss Mitigation System. This data is the only data maintained by HUD, relating to default status information and loss mitigation claim payments. We did not perform a detailed analysis of the reliability of the HUD provided data. However, through limited tests, we identified errors within the data and questioned some of the data's validity. We omitted erroneous data identified, and came up with more conservative figures which were reported throughout this audit report. The figures reported, using this data, include: the number of claims paid to the four large mortgagees reviewed, the number and amount of claims paid to one specific mortgagee, and the number of loans in default.

In addition, to achieve our audit objectives, we relied on data within a servicer report provided by HUD's Quality Assurance Division. We did not perform a detailed analysis of the reliability of the HUD provided data. However, through limited tests, we identified errors within the data and questioned some of the data's validity. We omitted erroneous data identified, and came up with more conservative figures which were reported throughout this audit report. The figures reported, using this data, include: the number of FHA insured loans in force, the number of loans serviced by the four large mortgagees reviewed, the total number of servicing mortgagees, and the number of servicing mortgagees using loss mitigation.

Scope

Our audit period covered activities from October 1, 1996, through December 31, 1998, with some activities reviewed through June 1999, due to continuation actions from the preceding period. Our fieldwork began on January 20, 1999, and was completed on June 25, 1999.

Generally Accepted Government Auditing Standards

We conducted the audit in accordance with Generally Accepted Government Auditing Standards. However, we did not test the general and application controls over HUD's Single Family Default Monitoring System and Loss Mitigation System, and relied on HUD's assertions that the information systems provided the only source of data needed for our audit.

Findings

Finding 1

Improvement Needed In Review of Loss Mitigation Claims

HUD needs to improve its procedures used to review loss mitigation claims. According to Single Family Claims Branch reports, loss mitigation claims paid from October 1, 1996 through May 31, 1999 totaled $26.9 million. Our review of four mortgagees, who were paid 61 percent of this total, identified numerous payments that were questionable. More specifically, HUD paid loss mitigation claims that were not in compliance with HUD requirements, and improper incentive fee payments were made. This resulted from a lack of pre and/or post claim review procedures. Without proper claim review procedures implemented, HUD will continue to have limited assurance that eligible claims and proper payments are made.

Mortgagees to use loss mitigation tools

The Department of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act of 1999 (Public Law 105-276, Title VI - FHA Property Disposition Reform), and Title 24 of the Code of Federal Regulations Part 203.501, requires that mortgagees engage in loss mitigation actions for the purpose of providing an alternative to foreclosure. As required under the provisions of this Act, mortgagees are to use the following home retention loss mitigation tools: special forbearance; mortgage modifications; and partial claims.

Mortgagees are paid for loss mitigation actions

To encourage servicing mortgagees to engage in loss mitigation activities, the Department devised a system to pay incentive fees to mortgagees for the use of loss mitigation tools. Loss mitigation incentive fee payments were introduced with Mortgagee Letter 96-61, dated November 12, 1996. Payments for the three home retention tools, including incentive fee payments, are as follows:

Loss Mitigation Tool	Amount Paid by HUD to Mortgagee
Special Forbearance	$100 administrative/incentive fee
Mortgage Modification	$500 administrative/incentive fee, and up to $250 for title search
Partial Claim	$250 administrative/incentive fee, plus the amount of the partial claim

Mortgagees can receive increased incentive fees

Annually, HUD evaluates its servicing mortgagees and ranks their default servicing performance using the Loss Mitigation Performance Analysis scoring system. HUD publishes mortgagees' scores within annual mortgagee letters. The first scores were published within Mortgagee Letter 97-21. Effective September 1, 1997, mortgagees with scores ranked in the top 25th percentile were eligible for increased incentive fees. Specifically, mortgagees in the top 25th percentile are paid a $200 incentive fee rather than the $100 incentive fee for each special forbearance agreement executed.

HUD contractor processes loss mitigation claims

Mortgagees apply for loss mitigation fees using the existing claim form, HUD 27011, Single Family Application for Insurance Benefits. A HUD contractor, Milvets System Technology, Inc. (Milvets), is responsible for processing and approving loss mitigation claims for payment. Milvets is located on-site within the Single Family Claims Branch in HUD Headquarters. The Single Family Claims Branch is part of the Single Family Post Insurance Division in the Office of Financial Services.

The HUD contractor receives mortgagees' claim forms through the mail. The Contractor manually reviews each claim and completes a 13-item checklist which ensures:

- The claim is received within 60 days of the effective date of the loss mitigation tool;
- The FHA mortgage insurance is active;
- Various items on the HUD Claim Form match information contained within HUD's Single Family Insurance System (also known as the A43 System); and
- As applicable, documents for the subordinate mortgage, have been submitted with the partial claim. Mortgagees are not required to submit supporting documentation for special forbearances or mortgage modifications.

There is no review performed by the Contractor to ensure compliance with HUD requirements. After the 13-item checklist is completed, the Contractor enters the data on the HUD claim form into the Loss Mitigation System, F95A, and the claim form is marked as ready for payment.

Non-compliant claims and improper incentive fees have been paid

We judgmentally selected and tested 200 loss mitigation claims for 179 cases reviewed at four lenders during the time period October 1, 1996 through December 31, 1998. The number of claims reviewed exceeds the number of cases reviewed, since a loan can have more than one loss mitigation action taken, thus more than one claim filed and paid. We expanded our review as necessary through May 31, 1999, and performed limited queries on the claims paid to these four lenders.

Based on our review, we found that HUD paid loss mitigation fees to mortgagees for claims that were not in compliance with HUD requirements. Also, improper incentive fee payments were made. We discuss both of these weaknesses, with illustrative examples, in the next two sections.

Payments made for claims not in compliance with HUD requirements

HUD paid loss mitigation claims that were not in compliance with HUD requirements. For example, payments were made for loss mitigation actions that were never reported to HUD as being executed. Also, incentive fees were paid for mortgage modifications that were not made within the eligibility period specified by HUD. Accordingly, such claims were not in compliance with HUD requirements and should not have been paid.

<u>Claims paid when loss mitigation actions were not reported as executed</u>
Under HUD requirements, lenders are obligated to report to HUD the default status of loans, as well as loss mitigation actions taken in regards to defaulted loans. This information is submitted electronically and entered into HUD's Single Family Default Monitoring System on a monthly basis. It should be noted that this process is separate and apart from the claim payment process.

We found that loss mitigation claims were paid, although loss mitigation actions were never reported as executed according to HUD's Single Family Default Monitoring System. If a lender has not reported loss mitigation actions taken for a specific loan, then they are not in compliance with HUD requirements. Furthermore, if a lender is not in compliance with HUD requirements, then claims should not be paid for the particular loan in question. Our review found that for 200 loss mitigation claims paid during the period October 1, 1996 through December 31, 1998, 59 of the loss mitigation tools were never reported to HUD as being executed. This represents approximately 29 percent of the transactions sampled. Since none of these actions were reported to HUD, the mortgagees were not in compliance with HUD requirements, and thus should not have been paid loss mitigation fees.

<u>Claims paid when mortgage modifications time frames not met</u>
Under HUD requirements, mortgagees are eligible to receive an incentive fee of $500 and up to $250 for title search expenses, for each mortgage modification implemented for a defaulting mortgagor. One requirement is that the mortgage must be in default at least 90 or more days.

One lender was implementing mortgage modifications and claiming a total of $750 from HUD, while the loan was less than 90 days behind. We found this for 8 of 43 mortgage modification transactions reviewed at this lender. This represented 19 percent of the mortgage modifications sampled. Since the HUD guidelines were not met, the claim payments of $750 were not eligible and should not have been paid.

In summary, the Department is authorizing payment of loss mitigation claims with no assurance that HUD requirements have been met. Therefore, payments have been made for non-compliant claims, and ineligible claims have been paid. Procedures need to be expanded to ensure that HUD requirements are met prior to payment of loss mitigation claims. If HUD requirements are not met, the claim should not be paid.

Improper incentive fee payments

HUD paid increased incentive fees to mortgagees while that mortgagee was not eligible to receive increased incentive fees. More specifically, we noted that mortgagees have been paid for increased incentive fees outside of the period authorized by the HUD Mortgagee Letters. In addition, some mortgagees, having more than one servicer identification number with different incentive fees authorized, are paid the higher fee regardless of which authorized servicer identification number applies.

Increased incentive fees paid outside of authorized period

As stated earlier, HUD evaluates its servicing mortgagees annually and ranks their performance using the Loss Mitigation Performance Analysis scoring system. Mortgagees in the top 25^{th} percentile are eligible to receive increased incentive fees of $200, rather than the $100 for special forbearance agreements executed.

One mortgagee was paid increased incentive fees for special forbearance agreements, at a time when the mortgagee was no longer eligible for the increased incentive fees. The lender was eligible for the increased incentive fees for all special forbearance agreements executed between February 12, 1998 through February 23, 1999, the effective dates specified in Mortgagee Letter 98-9. After February 23, 1999, the lender was no longer eligible to receive the increased incentive fee of $200. However, the mortgagee was paid $200 for eleven special forbearance agreements executed after the February 23, 1999 date.

The HUD contractor manually determines whether a mortgagee is to receive the higher incentive fee. This review is not part of the established checklist. Contractor staff review the applicable Mortgagee Letters to determine whether the mortgagee is listed as eligible, and whether the special forbearance agreement was executed within the time period authorized. This process is labor intensive and highly susceptible to error. Contractor officials indicated that this process will be automated in the near future and as a result, the erroneous payments of increased incentive fees, will diminish. In the interim, we suggest that improved controls be identified and put into place to minimize errors.

Incentive fees applied against incorrect servicer identification number

As stated above, HUD issues a Mortgagee Letter that identifies the mortgagees that are eligible for increased incentive fees each year. These mortgagees are identified by a servicer identification number. Some mortgagees have more than one servicer identification number. This occurs when one mortgagee purchases another mortgagee's portfolio, and the purchasing mortgagee retains the servicer identification number previously assigned to the purchased portfolio.

The Loss Mitigation Performance Analysis scoring system rates mortgagees based on their servicer identification numbers. As a result, a servicing mortgagee could be eligible for increased incentive fees for loans associated with one servicer identification number, but ineligible to receive increased incentive fees for loans associated with a different servicer identification number.

We found that HUD paid increased incentive fees for loans under a specific servicer identification number, even though that servicer identification number was not eligible for increased incentive fees. This practice was identified at two of the four mortgagees we reviewed, both of which had two servicer identification numbers.

Contractor staff apprised us that they received instructions from HUD officials to pay the higher incentive fee rate to one of the mortgagees we reviewed for both servicer identification numbers, when only one of the servicer identification numbers was eligible for the increased incentive fee. HUD officials informed us that this same mortgagee's score was recalculated using both servicer identification numbers, and based on the recalculated score, they were eligible for increased incentive fees for both servicer identification numbers. However, this recalculation was never performed for the other mortgagee in question.

Clarification is needed on what incentive fees are to be paid to a servicing mortgagee with different servicer identification numbers with different incentive fee rates.

No post claim reviews have been performed

A HUD official told us that the main compliance review procedure in place consists of a post claim review that is conducted by an independent contractor. However, post claim reviews are performed only on those claims which result in a termination of FHA mortgage insurance. Since loss mitigation claims do not result in a termination of FHA insurance, post claim reviews have excluded loss mitigation claims.

Furthermore, HUD Officials advised us that the sample universe used by the HUD contractor for selecting post claim reviews was from HUD's A43C automated claims system. The A43C system does not include loss mitigation claims. As a result, post claim reviews by the HUD contractor excluded loss mitigation claim payments. Currently, the HUD Single Family Claims Branch is in the process of automating their loss mitigation claims processing system, with the software roll-out scheduled for September 13, 1999. The successful implementation of this automated process will incorporate loss mitigation claims into the A43C system.

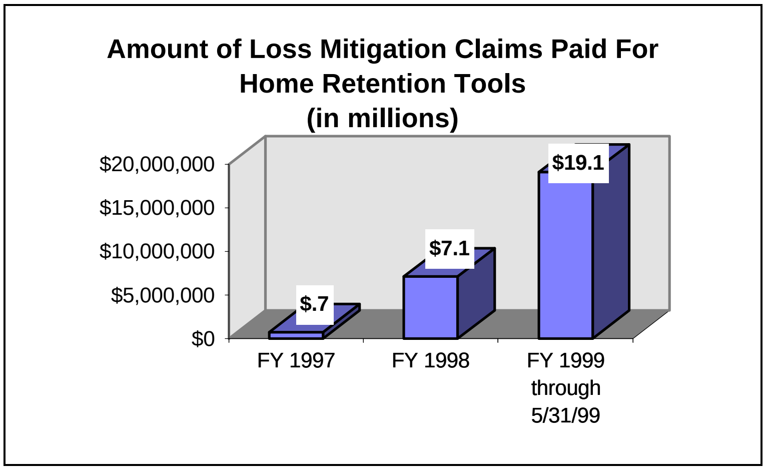
According to a HUD Official, the Single Family Claims Branch is responsible for all post claim reviews. This function was contracted previously with Gardiner, Kamya, and Associates, P.C. This contract expired at the end of the 1998 fiscal year. Since then a new contract has been planned, but as of August 1999, had not been awarded. The statement of work for the proposed contract does require the review of loss mitigation claims.

Overall, no compliance reviews are made of loss mitigation claims

Under the current procedures, HUD does not have an effective compliance review process in place to determine the eligibility, or the appropriate amount, of loss mitigation claims that are paid. Limited compliance reviews are performed before a claim is paid, and no reviews are performed after payment. Consequently, the Department has almost no assurance that loss mitigation claims being paid conform to established requirements.

Loss mitigation claim payments increasing at a very rapid rate

The payment of ineligible claims and improper loss mitigation fees could have an impact upon the HUD FHA insurance fund. As the following graph shows, from October 1, 1996 through May 31, 1999, HUD paid a total of $26.9 million in loss mitigation claims for the home ownership retention tools.



During the first eight months of the current fiscal year, over $19 million has been paid for loss mitigation claims. This is over two times the amount paid in the two previous fiscal years. A large percentage, or 71 percent, of the amount paid thus far, consists of partial claims, which are interest free loans secured by subordinate mortgages. This 71 percent figure includes both the partial claim amount and the applicable incentive fee. At this time, HUD does not know whether these monies will be repaid or not.

During the period from October 1, 1996 through May 31, 1999, HUD paid 18,609 loss mitigation claims totaling $26.9 million. During this same period, OIG's analysis of HUD's records showed that 779,883 insured loans were in default. Therefore, claims were paid on about 2 percent of the loans in default. Within Mortgagee Letter 96-61, HUD estimates that 18 percent of all loans in default will utilize one of the three home retention tools, thus will have claims paid by the Department. Had 18 percent of the defaulted loans had claims filed by mortgagees, and paid by HUD, the number of claims would have been approximately 167,000, which represents about a 900 percent increase. This would have resulted in a pay out of roughly $242 million, compared to $26.9 million.

The outlay of monies from the HUD insurance fund for loss mitigation claims has and is expected to increase dramatically in the future. For this reason alone, improved pre and post claim review procedures are warranted and certainly needed.

Auditee Comments

HUD generally concurred with this finding, and informed OIG that "FHA has recently taken several actions to improve the claims review process, including: (1) to enhance controls, the Office of Information and Technology recently modified FHA's Single Family claims system, establishing much tighter system controls over the payment process; (2) in September, 1999 FHA engaged a contractor to support post claim payment reviews of loss mitigation claims". These actions are positive steps in improving HUD's review of loss mitigation claims.

HUD took exception to one statement made in this finding, regarding partial claims. The finding stated, "At this time HUD does not know whether these monies will be repaid or not". HUD's response states that under the terms of the program, partial claims must be repaid upon liquidation of the primary mortgage obligation, and without repayment, FHA will not release its subordinate lien, allowing for the sale of the property. OIG agrees with this response. However, this response assumes that the partial claim was a success and the mortgagor recovered from default. OIG was trying to point out the risk associated with partial claims if the loss mitigation tool fails, and the loan goes into foreclosure. If a loan goes into foreclosure, the property must be sold for the amount of the foreclosure claim plus the amount of the partial claim, in order for HUD to recover the partial claim monies paid out.

Recommendations

We recommend that HUD:

1.A Implement procedures to verify claim compliance and eligibility prior to payment of a claim. If it is determined that a claim is not in compliance and/or ineligible, reject the claim.

1.B Implement procedures to evaluate loss mitigation payments during post claim reviews. Claim payments comprising the $26.9 million previously paid by HUD need to be included.

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Finding 2

Improvement Needed of HUD’s Monitoring and Oversight of Mortgagees’ Use of Home Retention Loss Mitigation Tools

Under Federal law, servicing mortgagees are to utilize loss mitigation tools in servicing its defaulted insured loan portfolio. Mortgagees are to use the tools that will best enable the defaulted mortgagor to retain their home and to minimize the impact upon the FHA insurance fund. HUD has a responsibility to ensure that the loss mitigation tools are used and their implementation conforms with HUD requirements.

While HUD has performed some monitoring and oversight of its servicing mortgagees, HUD has limited assurance that the servicing mortgagees are using the loss mitigation tools and that the established procedures are being implemented. Approximately 3,000 servicing mortgagees, that are servicing about one million HUD insured loans, have not filed any claims for using the home retention loss mitigation tools. If mortgagees fail to use the home retention loss mitigation tools with its defaulting mortgagors, the mortgagors may not be furnished sufficient guidance and avenues to retain their homes. In addition, the failure to use the required home retention loss mitigation tools could have an adverse impact upon the HUD insurance fund.

In addition, our review of four servicing mortgagees that have claimed 61 percent of the total amount of loss mitigation claims paid by HUD, showed that the servicing mortgagees were not fully complying with HUD requirements.

Mortgagees failing to properly implement the required loss mitigation tools clearly shows the need for HUD to establish a more effective monitoring and oversight system. By doing so, HUD will be better able to ensure that all its servicing mortgagees are using the loss mitigation tools as required by law and that the loss mitigation requirements and procedures are correctly followed.

Requirements of HUD’s Loss Mitigation Program

The Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1999 (Public Law 105-276, Title VI - FHA Property Disposition Reform), and Title 24 of the Code of Federal Regulations Part 203.501, requires that upon default of any mortgage insured under this title, mortgagees are to take loss mitigation actions to provide an alternative to foreclosure. Under the Act, mortgagees are required to use three loss mitigation tools that are designed to help defaulting mortgagors retain their homes. These three home retention tools are special forbearance, mortgage modifications, and partial claims.

In considering loss mitigation, mortgagees are to take the appropriate actions that can reasonably be expected to generate the smallest financial loss to HUD. HUD shall impose penalties against mortgagees that fail to consider and appropriately use the loss mitigation tools in servicing its defaulted FHA loans.

HUD has a responsibility to ensure that FHA servicing mortgagees are in compliance with the laws and regulations. As part of this responsibility, HUD has issued several Mortgagee Letters to prescribe the requirements for the appropriate use of the loss mitigation actions.

In February 1998, HUD established the National Servicing and Loss Mitigation Division in Oklahoma City (also known as the National Loss Mitigation Center) as HUD's central office to be responsible for all lender and homeowner inquires related to servicing and loss mitigation issues nationwide. The Loss Mitigation Center is to provide foreclosure avoidance counseling to FHA homeowners in default, perform onsite training and monitoring of high volume servicing lenders, and conduct large group training seminars for smaller loan servicers.

Mortgagees are not using loss mitigation home retention tools

As of February 1999, a total of 3,126 approved lenders were servicing over 6.2 million FHA insured loans. Of these 3,126 servicing mortgagees, only 139 mortgagees have filed claims for loss mitigation tool usage. These 139 mortgagees were servicing approximately 5.4 million FHA insured loans, which is 85 percent of the 6.2 million loans comprising the FHA insured loan portfolio. This leaves a little less than 3,000 mortgagees, servicing almost 1 million loans, who have never filed a claim for loss mitigation.

We identified, through HUD's Single Family Default Monitoring System, 779,883 loans in default, from October 1996 to May 1999. According to loss mitigation claim reports from the Single Family Claims Branch, 18,609 loss mitigation claims were paid during this same period for the three home retention tools. Therefore, only 2 percent of the defaulted loans had loss mitigation claims paid. While only 2 percent of the 779,883 loans in default had loss mitigation claims paid, HUD estimated that home retention loss mitigation tools would be used on 18 percent of all loans in default. Using HUD's 18 percent estimate, approximately 167,000 claims would have been expected to be received and paid, if all mortgagees had used the home retention tools as projected. These figures show that mortgagees are not using the loss mitigation tools as required by HUD.

Reasons mortgagees not using loss mitigation tools varies

In addition to the four servicing mortgagees we reviewed that implemented loss mitigation, we visited four servicing mortgagees that had not submitted any claims to HUD for using home retention tools. These mortgagees indicated that the mandatory loss mitigation tools were not used or needed because the lender:

- Was not familiar with the loss mitigation requirements,

- Used other servicing tools with defaulting mortgagors that the lender considered to be better than the HUD required home retention loss mitigation tools, and
- Had not set up procedures to use the tools since the servicer was being acquired by another mortgagee.

One of the mortgagees did not have all current HUD mortgagee letters detailing information about the loss mitigation tools.

This information illustrates the need for HUD to monitor and provide oversight to its servicing mortgagees who are not using the stipulated loss mitigation tools. More importantly, defaulting mortgagors may not have been afforded all loss mitigation avenues for them to retain their homes.

Specific requirements for using home retention tools

For a servicing mortgagee to claim a loss mitigation incentive fee from HUD, the mortgagee is obligated to ensure that HUD requirements for implementing the loss mitigation tools are followed. The servicing mortgagee must consider each of the tools, and determine which one would best suit the defaulting mortgagor and minimize the impact upon the HUD insurance fund. Before a loss mitigation tool may be used, the delinquent mortgage must be in default for at least 90 days. In addition, each home retention tool has specific time frames during which the tool can be implemented. For example, to execute a special forbearance agreement, the mortgagor must be four to seven months behind in payments. Also, the mortgagee is to ensure that the financial status of the defaulting mortgagor is properly and accurately reviewed and supported.

Mortgagees not complying with home retention tool requirements

We reviewed four servicing mortgagees and their use of the home retention loss mitigation tools. As stated earlier, from January 1996 through May 1999, these four mortgagees submitted 11,349 loss mitigation claims to HUD. These claims account for 61 percent of all loss mitigation claims filed with HUD during this period.

For three of the four servicing mortgagees we reviewed, we found that home retention loss mitigation tools were not implemented in conformity with HUD requirements. We noted the following deviations from HUD requirements, and address each deviation individually:

- Loss mitigation tool used when loan was not in default,
- Foreclosure action not initiated when mortgagor failed on a special forbearance plan,
- Time frame set by HUD changed by mortgagee,
- Mortgagee primarily used the mortgage modification tool,
- Eligibility requirements not properly determined, and
- Justification for not using certain home retention tools not documented.

Tool used when loan not in default

We reviewed 51 loss mitigation cases processed by one high volume servicer. This servicer used the mortgage modification tool as its primary loss mitigation tool. For our sample of 51 cases, the mortgagee used the mortgage modification tool in 43 instances.

We found in eight of the 43 cases, the mortgagee filed claims with HUD for executing mortgage modifications that were not in default by the necessary 90 days. In seven of these cases, the mortgages were in default by less than 60 days. In all eight cases the mortgagors had made payments on their delinquent mortgages, but the mortgagee placed the payments in a suspense account and did not apply the payments until the mortgage modification was executed. In these eight cases, the mortgagee was not eligible to receive the $750 incentive and title search fees they received for each of the mortgage modifications.

Foreclosure action not initiated when mortgagor failed on a special forbearance plan

HUD requires that once a mortgagor has failed on a special forbearance agreement, the mortgagee must initiate foreclosure within 90 days, or consider another loss mitigation tool. At one lender, we reviewed 65 special forbearance agreements executed. For three of the 65 special forbearance agreements reviewed, mortgagors had failed on their agreements, and the mortgagee hadn't initiated foreclosure within 90 days, nor had any other loss mitigation action been taken.

Time frame set by HUD changed by mortgagee

One mortgagee changed the time frames specified by HUD for the special forbearance loss mitigation tool. HUD stipulates that the defaulting mortgagor can have up to 18 months to pay the mortgage payment deficit. However, the mortgagee changed the time frame so that a defaulting mortgagor was generally only allowed ten months to pay the deficit. Furthermore, this mortgagee has initiated a new automated system which has the ten month limit built in for special forbearance agreements. The reduction in the number of months would require the mortgagor to have a monthly payment that would be higher then necessary.

The mortgagee, in using the ten month repayment time period, could cause some defaulting mortgagors to be ineligible for the special forbearance tool and require the mortgagor to use the mortgage modification tool. This would cause the mortgagor to repay the previous loan deficit over the life of the new modified loan, which is usually 30 years, rather than for only 18 months under the special forbearance tool.

The benefit to the mortgagee is the receipt of a loss mitigation incentive and title search fee of up to $750 for the use of the mortgage modification tool, rather than $100 incentive fee for the special forbearance tool. Another benefit is the mortgagee being able to receive repayment of the mortgage deficit over a thirty year period with interest. Consequently, the change of the time frames for repaying the special forbearance works to the benefit of the mortgagee rather than the mortgagor or HUD.

Mortgagee primarily used the mortgage modification tool

We found that this particular mortgagee processed 7,413 home retention loss mitigation claims through May 1999. For these cases, the mortgagee extensively used the mortgage modification tool. This is shown in the following chart that identifies the percentage of each tool used during this period:

Special Forbearance (730 cases)	9.8%
Mortgage Modification (6,676 cases)	90.1%
Partial Claim (7 cases)	0.1%

HUD estimates that mortgagees will use loss mitigation tools in the following percentages:

Special Forbearance	55%
Mortgage Modification	17%
Partial Claim	28%

These statistics indicate that the mortgagee is predominately utilizing the mortgage modification tool that is more beneficial to the mortgagee. Again, the mortgagee is usually receiving $750 for each mortgage modification and is receiving interest on the refinance of the mortgagor's mortgage deficit for the life of the loan, which is usually 30 years. This particular mortgagee was paid incentive fees of $600,750 in May 1999 alone for mortgage modifications.

These statistics illustrate the need for HUD monitoring and oversight of mortgagees' use of the home retention tools.

Eligibility requirements not properly determined

Our review also disclosed that HUD eligibility requirements were not properly determined. For example, a mortgagee, based on verbal instructions from a HUD Official, was not considering all of the indebtedness of mortgagors in determining the mortgagors' eligibility for home retention tools. The mortgagee was not considering the unsecured debts of the mortgagors, such as credit card liabilities. As a result, mortgagors were allowed to utilize a home retention tool that they may not have been eligible to receive. Executing a loss mitigation tool without considering all liabilities of the borrower could jeopardize the ability of the mortgagor to meet their monthly mortgage payment, and ultimately retain their home.

Justification not documented

We also noted, for the most part, mortgagees are not documenting why certain home retention tools were not used. Without sufficient documentation, the mortgagee is unable to demonstrate that the particular tool used was more beneficial to the mortgagor in retaining their home.

Improved monitoring and oversight is needed

These deficiencies and deviations from HUD requirements clearly illustrate the need for HUD to monitor and oversee the use of loss mitigation tools by its servicing mortgagees. This need was also recommended in the Federal Housing Administration Audit of Fiscal Year 1997 Financial Statements by KPMG Peat Marwick. This audit report recommended that HUD monitor the actual use of loss mitigation tools by lenders. HUD's response to this report states that HUD would increase its monitoring of servicing mortgagees. Our review identified that HUD had not taken this action. See “Follow Up on Prior Audits” section of this report.

Our review shows that while HUD does conduct some monitoring through servicing reviews, it has been minimal. During the current fiscal year, through July 9, 1999, a total of 19 servicing reviews have been conducted by the Quality Assurance Division within the four Home Ownership Centers. Another eight are tentatively scheduled for the remainder of the current fiscal year.

During fiscal year 1997, a total of 34 servicing reviews were performed with 24 of the reviews, or 71 percent, performed by an independent contractor. During fiscal year 1998, a total of 55 servicing reviews were performed with 46 of the reviews, or 84 percent, performed by an independent contractor. As these statistics show, the independent contractor performed the majority of the servicing reviews in both fiscal years 1997 and 1998. However, this contract expired at the end of the 1998 fiscal year and has not been replaced.

An effective monitoring and oversight program needs to be established and used by the Department, in order to have assurance that all servicing mortgagees are utilizing the required loss mitigation tools, and that such utilization is done in conformity with HUD requirements. A monitoring and oversight program is also needed in order for HUD to effectively implement their new “triple damages penalty” for loss mitigation. This penalty was included within HUD’s Appropriations Act of 1999. The Act states that HUD shall impose a penalty of three times the amount of insurance benefits claimed by a mortgagee with respect to any mortgage for which the mortgagee failed to engage in loss mitigation activities. HUD plans to implement policies and procedures to carry out the legislation by September 2000, enabling HUD to impose this penalty. Without a monitoring and oversight program, HUD will not be able to effectively identify those mortgagees who failed to engage in loss mitigation activities, and thus it will be difficult to implement the triple damages penalty sanction.

Summarization and issuance of loss mitigation requirements needed

During our reviews at the four servicing mortgagees, mortgagee officials pointed out several instances whereby instructions from HUD were unclear or inconsistent. They also expressed comments that requests for clarifying instructions from HUD were often not provided. In addition, sometimes instructions and guidance voiced by HUD officials at conferences or meetings differed from written instructions the mortgagee had received from HUD.

For example, one mortgagee was not obtaining broker price opinions before approving a mortgage modification or partial claim. Other mortgagees were obtaining them. Written instructions were provided to mortgagees requiring broker price opinions to be obtained as part of the processing of mortgage modifications and partial claims. However, the mortgagee was verbally told at a meeting with HUD officials that this requirement would no longer be required when the new mortgagee letter is issued. As a result, this mortgagee does not obtain the broker price opinions, while another mortgagee has spent approximately $43,400 from November 1998 through June 1999 to obtain the broker price opinions. If broker price opinions are not necessary for one mortgagee, it should not be necessary for all other mortgagees.

Clarification is needed on the necessary procedures to be followed by servicing mortgagees in applying and using the home retention tools. This could be easily accomplished by summarizing the instructions applicable to processing loss mitigation tools and issuing them to all servicing mortgagees.

National Loss Mitigation Center needs to increase training and monitoring actions

One objective of the National Loss Mitigation Center in Oklahoma City was to provide foreclosure avoidance counseling to FHA homeowners in default, and they have accomplished this goal. The Center is functioning primarily as a call center responding to individual homeowner and mortgagee inquiries. These inquiries relate to both FHA insured servicing issues and loss mitigation concerns. The majority of the Center’s inquires are from homeowners.

The Center was also to provide onsite training and monitoring of high volume servicing lenders and to conduct large group training seminars for smaller loan servicers. However, the Center has not been able to effectively carryout these training and monitoring duties. Because of very limited travel funding, the Center had conducted only three on-site training sessions with servicing mortgagees through June 1999. In addition, the Center conducted one group training session at the Center in Oklahoma City, and conducted one group training session at a Home Ownership Center for various mortgagees. No monitoring visits have been conducted.

At the time of our audit, the Loss Mitigation Center had 29 staff members in Oklahoma City assigned to loss mitigation activities. Due to the Center’s limited resources, it would be more beneficial and cost effective for the Center to focus its outreach efforts to 3,126 servicing mortgagees, rather than functioning primarily as a customer service center providing counseling on an individual basis to hundreds of thousands of homeowners in default. If the Center focused its resources on training and monitoring for the 3,126 servicing mortgagees, this could have a positive impact on each and every homeowner in default, with the expectation that the servicing mortgagees will correctly implement HUD’s Loss Mitigation Program.

Summary

In summary, while HUD has performed some monitoring and oversight of its servicing mortgagees, HUD has limited assurance that the servicing mortgagees are using the loss mitigation tools as required by law, and that the loss mitigation requirements and established procedures are being implemented correctly. This condition clearly shows the need for HUD to establish a more effective monitoring and oversight system.

Auditee Comments

HUD concurred with this finding, and informed OIG that "FHA can improve its lender monitoring". FHA's response states "To address this concern FHA already is taking the following actions:

1. Due to delays associated with procurement action, contractor support for servicing reviews (which include loss mitigation compliance checks) was temporarily disrupted. Office of Housing staff are working with the Office of Procurement and Contracts to address this concern, and expect to soon have a much expanded lender monitoring capacity in place.
2. A mortgagee letter, clarifying lender requirements under this program, is now under review by General Counsel and will be issued soon.
3. The Servicing and Loss Mitigation Division is developing an expanded training program for lenders to supplement this clarification.
4. Staff in that Division was increased this year to include a branch in our Tulsa Office, to further bolster lender training efforts".

These positive actions will aid HUD in improving its monitoring and oversight of mortgagees' use of loss mitigation tools.

Recommendations

We recommend that HUD:

2.A Design and implement an effective monitoring and oversight evaluation system that will:

- Identify those servicing mortgagees that are not using loss mitigation home retention tools and implement action that will ensure the servicing mortgagees use the home retention loss mitigation tools as required by law, and
- Review the implementation of the home retention loss mitigation tools by servicing mortgagees and take necessary action to ensure that the home retention loss mitigation tools comply with HUD requirements.

2.B Summarize and issue all instructions relating to the use and implementation of loss mitigation tools and issue them to all servicing mortgagees.

2.C Establish and implement an effective training program to provide the necessary training to servicing mortgagees on the use of loss mitigation tools and HUD requirements. With HUD's limited resources, this could be cost effectively accomplished through the Loss Mitigation Center in Oklahoma City.

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Finding 3

Default Status Data Contained Within the Single Family Default Monitoring System is Incomplete and Unreliable

HUD's ability to effectively monitor the FHA insured loan portfolio, as part of its oversight responsibility, is hampered because of inaccurate and incomplete data contained within the Single Family Default Monitoring System (SFDMS). Unreliable default status information, transmitted by servicing mortgagees to HUD, makes it difficult to assess and measure the effectiveness of FHA's Loss Mitigation Program. Also, this unreliable default data impairs HUD's ability to accurately assess the potential risk and cost to the FHA insurance fund. The primary reason for the discrepancies in the default monitoring system is HUD's process for maintaining the SFDMS does not have effective controls in place to detect these errors.

Federal Housing Administration mortgage insurance program

HUD's goal is to provide a decent, safe and suitable living environment for low and moderate income families. HUD plays a major role in supporting home ownership by underwriting home ownership for lower and moderate income families through its mortgage insurance program. HUD accomplishes this mission by providing mortgage and loan insurance through the Federal Housing Administration (FHA). The FHA division has insurance in force for over 6.2 million single family dwellings, totaling over $475 billion. Most of these loans are insured by the Mutual Mortgage Insurance Fund, which is designed to be a self-sustaining fund that requires no annual appropriations. HUD has oversight responsibility for the FHA insurance program.

HUD has an approved list of mortgagees who maintain and service these FHA insured loans. These servicing mortgagees have an obligation to assist any mortgagor who becomes delinquent in their payments. HUD has established the Loss Mitigation Program to assist mortgagees in keeping defaulted mortgagors in their homes. When a mortgagor becomes seriously delinquent (90 days or more delinquent), they are either offered some form of loss mitigation, provided they are eligible, or they are foreclosed on. For the properties that are foreclosed on, the mortgage company files a claim with HUD for the amount that is still owed on the mortgage and conveys the property to HUD for disposition.

Single Family Default Monitoring System

Servicing mortgagees have a requirement to report to HUD once each month the current status of all loans that are in default for 90 days or more. The system used to track defaulted loans is the Single Family Default Monitoring System. The SFDMS is the only database that stores and maintains default status codes. According to HUD Officials, HUD's only other means of obtaining default status data is from the Government

National Mortgage Association default data, which is compiled on a quarterly basis, or by calling the servicer directly to determine the status of individual FHA loans. For every table (a table is a series of records stored in one location) that HUD creates containing default status data, the data is extracted from the SFDMS. For example, all the default status information contained within the Default History Table, Default Episodes Table, IDB-1 Table, and IDB-2 Table, is extracted from the SFDMS.

Importance of reporting default information to HUD

Prompt and accurate reporting by servicing mortgagees is extremely important to provide HUD with an up-to-date account of the status of HUD insured mortgages. This reporting serves as an indicator of the effectiveness of servicing aspects of HUD loans.

The Single Family Default Monitoring System is used in part for the following purposes:

- Servicing mortgagees use it to notify HUD that a FHA insured loan is in default.
- Servicing mortgagees use it to report that a defaulted FHA loan is being reinstated because of a cure of the default. This could be a self cure by the borrower or the use of a loss mitigation tool by the servicer.
- Servicing mortgagees use it to notify the Secretary that the First Legal Action to Commence Foreclosure has been accomplished.
- Default data is used to determine default rates for both the entire FHA portfolio and for individual lenders.
- Default data is also used in the calculation of a lender's Loss Mitigation Performance score. This scoring system is used to determine which servicer receives increased incentives for the usage of loss mitigation tools.

In addition, HUD's Quality Assurance Division targets servicing mortgagees for performance audits based in part on data obtained from SFDMS. They use default status data and default rates to target poor performing mortgagees.

Inaccurate and incomplete default status data

The Office of Inspector General estimated, as of March 1, 1999, FHA's insured loan portfolio consisted of approximately 6,235,000 active loans. The four mortgagees we reviewed during our audit serviced 1,736,875 insured loans, or 27 percent of FHA's insured loan portfolio. From October 1996 through May 1999, HUD paid 18,609 home retention loss mitigation claims. The four mortgagees we reviewed were paid 11,349 incentive claims, or 61 percent of the total claims paid. Our review of 179 case files maintained by the four mortgagees reviewed, disclosed that default data reported to HUD by mortgagees is often inaccurate and incomplete. Of the 179 case files reviewed, 124 or 69 percent of the case files, contained default status reporting errors.

Following are examples of inaccurate and incomplete default status codes, that were reported within SFDMS, identified during our review. These examples were identified through the review of 179 case files at four larger lenders, through the review of select case files at four smaller lenders, and through interviews with HUD and Mortgagee Officials.

- Servicing mortgagees did not report that a loan was in default before they reported other default status codes. This can have a direct impact on the default episodes table which HUD uses in the calculation of servicers' loss mitigation performance scores.
- Servicing mortgagees did not report when they used a loss mitigation tool.
- Servicing mortgagees reported default status codes in the wrong month. Sometimes mortgagees reported a loan as being in default when the borrower was only two months behind in their payments. At other times, mortgagees reported the use of a loss mitigation tool months after it was initiated.
- Servicing mortgagees reported the wrong partial claim code.
- Servicing mortgagees reported two different default status codes from two different computer systems for the same loan in the same month, thus reporting one erroneous code a month.
- Servicing mortgagees reported default status codes to HUD and the codes did not show up in SFDMS. Mortgagee reports show that the codes were reported. It is unclear why the codes were not input into the system.
- Servicing Mortgagees asserted they did not transmit a default status code, however, the code showed up in the SFDMS. Mortgagee reports show that the code was not reported. It is unclear what caused this to occur.
- SFDMS reported two default status codes that made no logical sense for the same FHA loan. For example, a Pre-Foreclosure Sale Completed and a Foreclosure Sale Completed were reported for the same loan.
- Servicing mortgagees used the cancel code inconsistently. Some lenders used the code to cancel one specific default status code, while others would use the code to cancel a complete default episode which is a series of default status codes.

HUD's ability to monitor FHA loan portfolio is limited

Without complete and accurate default status information, HUD's ability to effectively monitor and assess the status of its defaulted FHA insured loan portfolio is limited. Incomplete and inaccurate default status information limits HUD's ability to identify servicing mortgagees who need additional guidance and technical assistance, and to identify those servicing mortgagees who have not implemented loss mitigation.

HUD has awarded a contract with Abt and Associates to evaluate its loss mitigation program and recommend improvements. One of the problems that the contractor will encounter during their evaluation is that they will have to use the data contained in SFDMS. HUD has advised the contractor that data contained in the Default History Table, extracted from the SFDMS, contains reporting errors and inconsistencies.

Limited controls and edit checks

According to a HUD contractor, HUD has limited controls and edit checks in place to detect incomplete and inaccurate default status code data that is being input into the SFDMS. The controls that are presently in place are designed to catch only the most rudimentary errors associated with the default status code reporting.

There are three built in controls in SFDMS. Servicing mortgagees are only provided reject listings for the three basic default code errors. The first control detects invalid servicer numbers and the second control detects invalid FHA case numbers. The third control is for detecting invalid or inappropriate default status codes. However, this control only considers a code to be invalid when a servicer submits a default status code for any FHA insured loan that has been terminated. FHA loans are terminated when a foreclosure claim is paid or when a mortgagor pays off the loan.

In addition, the controls presently used by HUD do not force a servicer to submit the proper default status code. For example, our review disclosed that HUD's claims processing Contractor pays loss mitigation incentive claims to mortgagees yet the mortgagees do not report the usage of loss mitigation tools. The contractor does not ensure that loss mitigation activities have been reported prior to paying a claim. Our review disclosed that mortgagees often do not report all default activity.

Improved controls and edits are needed

In summary, information and data that is being reported and recorded into the Single Family Default Monitoring System is often inaccurate and/or incomplete. In addition, some information being reported by the servicing mortgagees is not being reflected in the system. To help ensure the data received and recorded into the SFDMS is accurate and complete, procedures need to be established and implemented. These procedures would include the following controls and edits:

- Provide clarifying instructions to all servicing mortgagees on the use of the codes to be reported to HUD. This would include instructions on: what code is to be used for each type of servicing transaction; when the codes are to be reported; and how the information is to be furnished to HUD. In addition, HUD would need to stress the importance of submitting current and accurate information and how the failure to do so would impact upon the servicing mortgagee.
- Link default status code reporting to payments of loss mitigation claims. For example, if a servicing mortgagee files a claim for a special forbearance tool used, but the mortgagee has not reported to HUD the using of the special forbearance tool, then the payment of the claim would be withheld until correct information is recorded.
- Expand controls within the Single Family Default Monitoring System to detect illogical default codes and the improper use of default codes. Controls need to be established so that default codes can only be used in sequential order. When codes are reported out of sequence, an edit

would require additional information before the out-of-sequence code would be accepted. For example, the first code reported must show the loan in default; conveyance to HUD could only follow a termination of the loan, such as foreclosure completed or deed in lieu completed; a lender could not report a first legal action to commence foreclosure until a foreclosure started code was reported; etc.

With the implementation of better controls and edits, HUD will have more accurate and timely information within its Single Family Default Monitoring System, with which to evaluate and monitor its servicing mortgagees.

Auditee Comments

HUD concurred with this finding, and informed OIG that "The use of loss mitigation status codes in default reporting by lenders is clearly deficient, and FHA will move aggressively to address this concern. Two primary scheduled actions will be to clarify default reporting requirements in a mortgagee letter, and relate default reporting to loss mitigation claim filings as a means to detect patterns of lender non-compliance. FHA staff also will review with the Office of Information and Technology opportunities to refine system edits to improve data quality, and to expand the types of loss mitigation status codes".

These actions planned by the Department are positive steps that will greatly help rectify the conditions addressed in this finding.

Recommendations

We recommend that HUD:

3.A Evaluate and implement better controls and edits within the Single Family Default Monitoring System to ensure more accurate and timely information from the servicing mortgagees. This system would incorporate the following:

- Expedite the issuance of the new Mortgagee Letter that addresses loss mitigation. Part of this letter also addresses default status code reporting. This mortgagee letter will clarify many of the issues that are concerning mortgagees and will put many of the changes that have been addressed in previous mortgagee letters into one comprehensive mortgagee letter.
- Restate and clarify default status reporting requirements and coding instructions so that servicing mortgagees have a clearer understanding of what HUD needs and expects from them.

- Link default status code reporting to payments of loss mitigation claims.
- Expand the three controls already in place within the SFDMS, to include controls to detect illogical default codes and the improper use of default codes. Controls can be written so that default codes can only be used in sequential order.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include systems for measuring, reporting, and monitoring program performance.

Management controls assessed

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

- Controls that ensure loss mitigation claims are properly paid;
- Controls that ensure compliance with HUD regulations; and
- Controls that ensure reliable reporting data.

Assessment procedures

The following audit procedures were used to evaluate the management controls:

- Interviews with Single Family personnel, Mortgagee employees and HUD contractors;
- Reviews of servicing files, claims files, and other records maintained by those entities reviewed;
- Review of the Single Family Default Monitoring System and Claims databases; and
- Evaluation of HUD established policies and procedures for implementing the Loss Mitigation Program, compared against actual policies and procedures followed by mortgagees.

HUD data systems

We did not test the general and application controls over HUD's Single Family Default Monitoring System and Loss Mitigation System, and relied on HUD's assertions that the information systems provided the only source of data needed for our audit.

Significant weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained and maintained, and fairly disclosed in reports. Based on our audit, we identified the following significant weaknesses:

- Review procedures are not implemented prior to payment of loss mitigation claims and post claim reviews are not accomplished (see Finding #1);
- Monitoring and oversight of mortgagees' use of loss mitigation tools is limited (see Finding #2); and

- The default status data being submitted to HUD through the Single Family Default Monitoring System is incomplete and unreliable (see Finding #3).

Follow Up on Prior Audits

On March 9, 1998, the Office of Inspector General issued an audit of the Federal Housing Administration's Financial Statements for Fiscal Year 1997. The audit was conducted by KPMG Peat Marwick LLP's (KPMG). They reported the following material weakness: **FHA must place more emphasis on early warning and loss prevention for insured mortgages**. The audit report states that FHA must focus more attention on reducing the frequency and loss severity of defaults on insured mortgages by utilizing loss mitigation tools for the single family insured portfolio before properties are foreclosed. The audit report further states that: "FHA does not have adequate systems, processes, or resources to identify and manage risks in its insured portfolios effectively. Timely identification of troubled insured mortgages is a key element of FHA's efforts to target resources to insured mortgages that represent the greatest risks to FHA. Troubled insured mortgages must be identified before FHA can institute loss mitigation techniques that can reduce eventual claims." This material weakness was again reported in the audit of the Federal Housing Administration's Financial Statements for Fiscal Year 1998. To date, Single Family Housing Officials have not taken the appropriate corrective actions to address the material weakness.

KPMG's Recommendations for Single Family were:

- Increase the Quality Assurance Division's profile with FHA approved lenders and make FHA's enforcement priorities consistent and highly publicized.
- Focus the Quality Assurance Division's enforcement actions on the accuracy of delinquency and default data submitted to FHA through the Single Family Default Monitoring System. FHA is not confident about the quality of Single Family Default Monitoring System data. Increased Quality Assurance Division attention should improve the accuracy of lender submissions.
- Utilize the loss mitigation scoring model to understand and predict the full impact of the different loss mitigation tools as effective alternatives to mortgage foreclosure and as a beneficial financial alternative to the mortgagee assignment program. FHA should also use the loss mitigation scoring model to not only reward lenders with satisfactory scores but also identify lenders with unacceptable scores. Training and awareness programs should be developed to rectify deficient servicing practices identified and eliminate non-compliant lenders from the FHA insurance programs.
- Monitor actual use of loss mitigation tools by lenders and evaluate whether the loss mitigation program should be modified to encourage wider use.

HUD's response to KPMG recommendations were:

- Increase the Quality Assurance Division staff who perform on-site reviews of FHA approved mortgagees from the present manning of 43 to 76 by the end of fiscal year 1998. HUD indicates that since FY 1997, it has nearly doubled the number of on-site monitoring reviews from 256 to 440. It further states that it plans on performing 900 on-site reviews during FY 1999.
- Utilize existing loss mitigation tools as alternatives to mortgage foreclosure. HUD indicated that the loss mitigation program was taking hold as shown by the increased number of incentive claims that were being paid to servicers. Projections indicate that the program should serve as many as 20,000 households in default during FY 1999.
- Develop a lender scoring system to analyze loss mitigation tool usage, performance, and effectiveness in comparing lenders.

We conducted an audit of HUD's Loss Mitigation Program for the period October 1, 1996 through December 1, 1998, with some activities reviewed through June 1999. Our audit served as a tool to update our understanding of HUD's progress to date. Below we have addressed each HUD response individually. Based on the information below, we are suggesting that this material weakness remain open until Single Family takes the appropriate corrective actions needed to effectively address the issues previously raised by KPMG and further identified during our audit.

Quality Assurance Division to increase on-site monitoring

A servicing review is HUD's main quality assurance tool used to monitor a servicer's loss mitigation activities. Our audit work showed a decrease in the number of servicing reviews performed in FY 1999 compared to prior years. It was noted during our audit that HUD's Quality Assurance Division in Headquarters had not awarded a contract to conduct servicing reviews as of June 1999; therefore, no servicing reviews have been performed during FY 1999 by this division. The Quality Assurance Divisions within the four Home Ownership Centers performed limited on-site servicing reviews during FY 1999. As of July 9, 1999, the Home Ownership Centers had performed only 19 servicing reviews and only 8 additional reviews were scheduled for the remainder of FY 1999. This decrease in servicing reviews is taking place at a time when default and in-foreclosure numbers for FHA insured loans are on the rise.

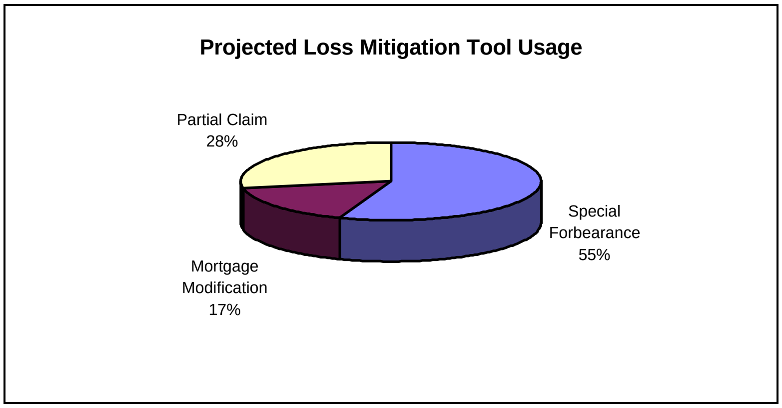
Utilize existing loss mitigation tools as alternatives to foreclosure

HUD has indicated that because the number and amount of loss mitigation claims is on the rise, it is a indicator that loss mitigation is working. However, as loss mitigation claim costs rise exponentially, HUD does not have a system to evaluate the effectiveness of loss mitigation tool usage, and can not determine whether loss mitigation activities are ultimately preventing a mortgagor from defaulting again or being foreclosed on. As stated before, the in-foreclosure numbers for FHA insured loans continues to increase.

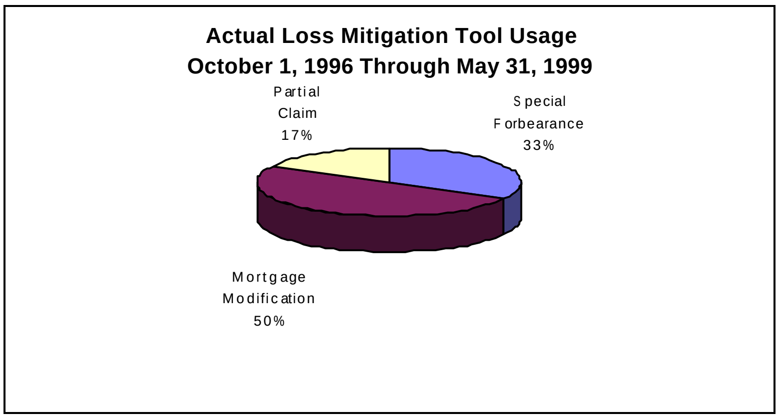
Develop a scoring system to evaluate loss mitigation tool usage

HUD presently employs a scoring system, referred to as the Loss Mitigation Performance Analysis scoring system. This system evaluates the overall effectiveness of a servicer to mitigate loss to the FHA Insurance Fund. However, this system does not evaluate the effectiveness of each individual loss mitigation tool and its subsequent costs to the insurance fund. HUD has no way to determine the ultimate success of a servicers' use of specific loss mitigation tools. Therefore, HUD can not determine if the loss mitigation tool selected and used by a servicer, for a specific defaulted FHA insured loan, was successful in preventing the borrower from defaulting again or being foreclosed on.

In addition, HUD does not have a system to evaluate how effective a servicer is at choosing the most appropriate loss mitigation tool. Within Mortgagee Letter 96-61, HUD originally projected the following home retention tool usage:



We determined, through analysis of HUD data, that the actual home retention tool usage for the period October 1, 1996 through May 31, 1999 did not approximate these projections.



HUD needs to have a system in place to evaluate a servicer's use of the home retention loss mitigation tools to ensure servicers are implementing the most appropriate loss mitigation tool so as to minimize the expense and risk to the FHA Insurance Fund.

HUD contractor to evaluate Loss Mitigation Program

HUD has let a contract to Abt and Associates Inc. to assess FHA's Single Family Mortgage Insurance Loss Mitigation Program. The Task Order for the contract states that the Contractor will produce a clearly presented assessment of the utilization and effectiveness of FHA's various loss mitigation options. However, this contract is not to be completed until August 2000. This contract, if successfully implemented and completed, will help HUD evaluate the success and cost effectiveness of individual loss mitigation tools.

Single Family has not taken appropriate action to address FY 97 and FY 98 material weakness

To date, Single Family Housing has not adequately addressed the material weakness identified in the Fiscal Year 1997 audit and repeated in the Fiscal Year 1998 audit.

Appendices

Appendix A

Auditee Comments

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

September 29, 1999

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MEMORANDUM FOR: Robert C. Gwin, District Inspector General for Audit, Office of Inspector General

FROM: William C. Apgar, Assistant Secretary for Housing-Federal Housing Commissioner, H

SUBJECT: FHA Response to OIG Nationwide Review of FHA's Single family Loss Mitigation Program

Thank you for the opportunity to review and comment on your audit report on the Single family Loss Mitigation program. As stated in the Executive Summary, the use of loss mitigation is indeed rising exponentially. In light of long-standing criticism that FHA lenders were not using the new Loan Loss Mitigation tools at a sufficient rate, I am pleased that your report acknowledges substantial increases in the level of usage. Through August, 1999, eleven months into the current fiscal year, FHA already had supported a total of nearly 25,000 loss mitigation actions. By the end of the fiscal year, FHA anticipates it will have taken more than 27,000 actions, a more than 250 percent increase over the number of actions in FY1998. Furthermore, 81 percent of all loss mitigation claims paid by FHA in Fiscal Year 1999 supported homeownership retention, with the balance providing homeowners with an alternative to foreclosure through either pre-foreclosure sale or a deed-in-lieu of foreclosure. This is due in no small way to the outreach efforts of FHA's national loss mitigation staff in Oklahoma City, to overall efforts to inform lenders regarding the program, and to enforcing lender compliance.

As noted in your report, due to recent high levels of activity occurring in this program over just this past year, it is difficult at this time to precisely measure the ultimate success of this program. Indeed, since the bulk of your audit work was completed in March, 1999, FHA has taken more than 13,000 additional Loan Loss Mitigation actions – more actions than were reviewed in the course of your entire audit (which reviewed four servicers responsible for approximately 11,000 actions). Still, despite this highly dynamic situation, the Department has engaged Abt & Associates to help define the ultimate savings generated through the Loan Loss Mitigation program. Though this report is not yet completed, it is important to note that loss mitigation actions are extremely cost effective. While a foreclosure claim paid by FHA represents a net loss for that claim of approximately $30,000, most loss mitigation claims average only $1,500.

I also must take issue with your statement in the executive summary that "there is little evidence to show that lenders' loss mitigation efforts have impacted HUD default rates". Loss mitigation is in fact a process to mitigate losses *after* a loan had gone into default. When the program can successfully stop a lender's rush to foreclosure following the occurrence of a default, and ultimately enable a homeowner to reinstate their mortgage, the Department and the homeowner realize significant financial benefits. All program actions occur following the default, and may even prolong the default episode, yet still result in an outcome that is favorable to all parties. Therefore, the references to the default rate are simply not related to the effectiveness of this program.

Having noted this inconsistency, I agree with many aspects of the three basic findings in the report itself: FHA has need to improve the review of loss mitigation claims; the monitoring and oversight of mortgagees use of home retention loss mitigation tools; and the quality of **some critical** data contained within the Single Family Default Monitoring System.

I would like to highlight an important clarification related to the concern over default reporting (Finding 3). A February, 1999 mortgagee letter (see attachment) identified status codes which lenders must use to report loss mitigation efforts. Lenders who fail to appropriately use these codes when reporting defaults impair FHA's ability to access program compliance. The OIG report itself notes the concern is over unreliable default **status** information (whether a reported default is being converted to a mortgage modification, for instance), as opposed to failure to report defaults at all. Moreover, FHA has tremendously improved the quality of default reporting overall through its implementation of mandatory EDI default reporting, and recent enhancement to its "FHA Connection" Internet application. FHA continues to improve its default reporting process through selected matches with GNMA loan default files.

This said, the use of **loss mitigation status codes** in default reporting by lenders is clearly deficient, and FHA will move aggressively to address this concern. Two primary scheduled actions will be to clarify default reporting requirements in a mortgagee letter, and relate default reporting to loss mitigation claim filings as a means to detect patterns of lender non-compliance. FHA staff also will review with the Office of Information and Technology opportunities to refine system edits to improve data quality, and to expand the types of loss mitigation status codes.

I also agree with the basic statement in Finding 1 that FHA has needed to improve its review of loss mitigation claims. That is why FHA has recently taken several actions to improve the claim review process, including: (1) to enhance controls the Office of Information and Technology recently modified FHA's Single Family claims system, establishing much tighter system controls over the payment process; (2) in September, 1999 FHA engaged a contractor to support post claim payment reviews of loss mitigation claims, a deficiency noted in the review.

Also related to Finding 1, I would like to clarify a misleading statement in the report. The report states that, regarding partial claims, "At this time HUD does not know whether these monies will be repaid or not". Under the terms of the program, partial claims must be repaid upon liquidation of the primary mortgage obligation. The custody and servicing required for partial claim subordinate mortgages is handled by FHA's national servicing contractor, Deloite and Touche. Without repayment FHA will not release its subordinate lien, allowing for the sale of the property.

I also agree with Finding 2 that FHA can improve its lender monitoring. To address this concern FHA already is taking the following actions:

1. Due to delays associated with a procurement action, contractor support for servicing reviews (which include loss mitigation compliance checks) was temporarily disrupted. Office of Housing staff are working with the Office of Procurement and Contracts to address this concern, and expect to soon have a much expanded lender monitoring capacity in place.

2. A mortgagee letter, clarifying lender requirements under the program, is now under review by General Counsel and will be issued soon.

3. The Servicing and Loss Mitigation Division is developing an expanded training program for lenders to supplement this clarification.

4. Staff in that Division was increased this year to include a branch in our Tulsa Office, to further bolster lender training efforts.

Finally, I would like to take this opportunity to commend you and your staff for the professional conduct you have demonstrated, and for the quality of the review itself. My comments above are intended to advance the very constructive exchange which has occurred between our offices throughout this review. If you have any questions regarding these comments, please contact Joseph McCloskey, Director of the Single Family Asset Management Division, at 202-708-1672.

Attachment

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Appendix B

Distribution

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The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510
Honorable Dan Burton, Chairman, Committee on Governmental Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515
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Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington, DC 20515
Mr. Pete Sessions, Government Reform and Oversight Committee, Room 212, O'Neil House Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC 20548 (Attention: Judy England-Joseph)

Department of Veterans Affairs, Office of Inspector General (52A), 810 Vermont Avenue, NW, Washington, DC 20410

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Inspector General, G