



Issue Date	April 2, 1996
Audit Case Number	96-AO-121-0002

TO: Emelda P. Johnson, Deputy Assistant Secretary  
for Single Family Housing, HS

FROM: Janice LeRoy, District Inspector General, Capital District, 3GGA

SUBJECT: Review of Selected Aspects of the Single Family Assignment Program

We completed a review of the Office of Housing's Single Family Assignment Program. Our objectives were to determine whether HUD field offices were:

- timely initiating appropriate and effective servicing and collection actions against delinquent mortgagors;
- promptly recommending defaulted loans for foreclosure when servicing and collection actions were unsuccessful; and
- taking adequate measures to protect the value of the properties securing HUD-held mortgages including paying the taxes on both assigned loans and Real Estate Owned properties.

We conducted our review in HUD Headquarters and three field offices: Washington, DC, Fort Worth, TX, and Los Angeles, CA.

Our report contains one finding which discloses opportunities for more effective operation of the Single Family Assignment Program.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective actin and date to be completed; or (3) why action is considered unnecessary. Also please furnish us with copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact me or Marty Heaster, Assistant District Inspector General, at 708-0351.

---

# Table of Contents

---

---

Executive Summary	1
-------------------	---

---

Introduction	
Background	3
Objectives and Scope	3

---

Finding	
Single Family Assignment Program	
C o u l d      B e      M o r e      E f f e c t i v e	5

---

Internal Controls	15
-------------------	----

---

Appendices	
A      Auditee Comments	17
B      Distribution	21

(This Page Intentionally Left Blank)

---

# Executive Summary

The objective of the Single Family Assignment Program is to help mortgagors achieve debt-free home ownership while minimizing the U.S. Department of Housing and Urban Development's (HUD) losses from mortgage defaults. The program, which at the time of our review included 92,000 mortgages with an outstanding principal balance of \$4.4 billion, was meant to be temporary relief for mortgagors experiencing financial difficulties. However, over time, it has evolved into an program that, overall, does not move mortgagors towards debt-free home ownership or protect HUD's interest in the properties, but does subsidize housing for many program participants. This evolution can be primarily attributed, in recent years, to the practice of devoting the bulk of the staff resources to processing assignment program applications, leaving few to carry out the essential servicing functions that actually guide mortgagors back to self sufficiency.

Without aggressive servicing and collection activities, mortgagors are not dissuaded from falling further behind in their mortgage payments, thereby increasing mortgage costs and foreclosures. Recent studies by the General Accounting Office (GAO) and HUD's Office of Policy Development and Research (PD&R) show that once a mortgagor owes HUD an amount greater than 25 percent of the principal balance of the assigned loan, the inclination is to give up hope and to abandon the property. Yet, HUD has seemingly ignored the consequences of poor servicing, and ignored common collection tools. Further it has not always protected properties from tax liens and tax sales, used foreclosures to protect its investment in assigned properties, assured proper payments under bankruptcy, and promptly transferred foreclosed properties from the assignment inventory to the Real Estate Owned branch for disposition.

It is imperative that HUD more effectively manage the assignment process as recent changes to the assignment program will likely result in a tremendous influx of additional mortgagors, further stymieing its efforts to gain control of the program. The result may be even more disgruntled and disillusioned mortgagors and even greater financial losses to the insurance fund and HUD.

The problems with the assignment program are well known and long-term solutions have been and are being studied at many levels. The purpose of this report is not to rehash those problems, but rather to offer observations of selected operations at three field offices — Washington, DC, Fort Worth, TX, and Los Angeles, CA — and to recommend interim measures to shore up the program while HUD considers its options for solving its long-term problems.

The Deputy Assistant Secretary for Single Family Housing did not disagree with the finding of our report but only partially agreed with our recommendations pending termination of the assignment program. In general, the comments were that the program will be eliminated in the 1996 appropriation, therefore there is no pressing need to take corrective action. Those comments have been discussed in greater detail in the body of the report and are included in their entirety as Appendix A to this report.

(This Page Intentionally Left Blank)

---

# Introduction

## Background

The National Housing Act authorizes the Department of Housing and Urban Development (HUD) to insure approved single family housing mortgages made by HUD-approved lending institutions. Under Section 203(b) of the Act, a mortgagor who defaults or becomes financially distressed can apply for, or be recommended for, the Single Family Assignment Program. An applicant, the mortgagor, is generally accepted into the program if the default is caused by circumstances beyond the mortgagor's control and there is a reasonable prospect of economic recovery and eventual payment.

Upon acceptance into the assignment program, HUD and the mortgagor enter into a forbearance agreement which establishes a monthly payment based on the mortgagor's income and expenses. During the initial 36 months of assignment, the monthly payment may be increased, reduced, or suspended entirely. After 36 months, the mortgagor is to pay at least the monthly amount required under the mortgage.

If the mortgagor does not apply, or is not accepted into the assignment program, or is accepted but is unable to comply with the forbearance agreement, HUD takes possession of the property through foreclosure or deed-in-lieu of foreclosure. Once foreclosure occurs the property goes to the Real Estate Owned Branch and is added to the disposal inventory. In the case of either default or foreclosure, HUD pays the mortgage insurance claim and takes responsibility for maintaining and preserving the property until disposal.

The Single Family Assignment Program is administered at the field office level by the Asset Management Branch. The branch determines which assignment requests will be accepted and, after acceptance, services the assigned loans. Servicing includes preparing and monitoring payment plans, paying real estate taxes and special assessments, and analyzing escrow accounts. As of April 1995, the single family assignment inventory consisted of approximately 92,700 mortgages with a principal balance of \$4.4 billion.

## Objectives and Scope

The objectives of this review were to determine whether HUD field offices were:

- timely initiating appropriate and effective servicing and collection actions against delinquent mortgagors;
- promptly recommending defaulted loans for foreclosure when servicing and collection actions were unsuccessful; and

- taking adequate measures to protect the value of the properties securing HUD-held mortgages including paying the taxes on both assigned loans and Real Estate Owned properties.

To accomplish these objectives we evaluated selected aspects in the performance of three field offices: Washington, DC, Fort Worth, TX, and Los Angeles, CA. Collectively, these three offices were responsible for servicing about 10 percent of the properties active in the Single Family Mortgage Notes System as of March 1995.

Our initial review at the DC field office was conducted during September and October, 1994. Our subsequent expanded review of two additional field offices, including supplementary work at the DC field office, was conducted between February and July 1995.

Specifically, we:

- reviewed the Single Family Mortgage Notes System accounting and production reports;
- reviewed field office correspondence files and control records;
- examined a judgmental sample of cases for which payment had not been made for at least six months and the related Single Family Mortgage Notes System accounting and Single Family Asset Management System data;
- performed drive-by windshield inspections of selected properties;
- interviewed staff in the Office of Single Family Housing, the Asset Management and Real Estate Owned Branches, and in the Office of General Counsel; and
- interviewed staff from the taxing authorities and foreclosure contractors.

We conducted the review in accordance with generally accepted government auditing standards.

---

# Single Family Assignment Program Could Be More Effective

Our review of the Single Family Assignment Program as administered by three HUD field offices — Washington, DC, Fort Worth, TX, and Los Angeles, CA, — disclosed opportunities for more effective operations. Most significantly, we noted a marked difference in the operations of the field offices with the Fort Worth office being the most effective and proactive in overcoming difficulties. Where the program was less effectively administered, properties were lost at tax sales, foreclosures were not imposed when necessary, bankruptcies were not tracked or monitored, and properties were not transferred promptly. As recently revised assignment processing guidelines may result in an increase in the number of mortgage loans entering the assignment program, it is essential that steps be taken to immediately increase the effectiveness of the servicing function. Neither HUD nor mortgagors are benefitted by allowing mortgagors to continuously disregard their loan obligation with little risk of being prodded by even the most common of collection actions, including foreclosure. Neither HUD nor responsible mortgagors are served when properties are not safeguarded.

Although HUD must continue to seek long-term solutions to the systemic problems with the assignment program, we believe there are actions that can be taken in the short-term to improve current operational problems. We recommend HUD consider using the Fort Worth servicing approach as a model for other field offices, forming a quick reaction team to take needed action on the inventory of assigned properties, integrate the two management information systems controlling the program and analyze management goals to assure the focus is on total servicing and not primarily processing applications. We also recommend all field office use common collection tools and better track and protect properties in the assignment program.

## **Field Offices Varied In Effectiveness**

The three field offices reviewed — Fort Worth, DC and Los Angeles — differed markedly in how they operated and their relative effectiveness. The Fort Worth field office was proactive in its approach, continuously seeking ways to assure the assignment program met its objectives. The field office treated processing and servicing as a single function and took a cradle-to-grave approach in assigning incoming cases to specific asset managers to follow throughout the assignment process. This allowed the asset manager to develop a familiarity with the case, continuously track case status, assure the property was adequately protected and, when necessary, promptly recommend foreclosure. During the period when there was no foreclosure contractor, the field office enlisted the assistance of field office attorneys to process foreclosures in-house



## Finding

---

and quickly transferred records to the contractor once funding was provided. Although we noted a few problem cases, in total the Fort Worth field office was remarkably effective.

The DC and Los Angeles field offices were structured along functional lines with approximately two-thirds of the asset managers assigned to application processing and the remaining one-third to servicing. These field offices appeared to be more reactive and slower to respond to program difficulties. The asset managers were less familiar with their assigned cases, tracking was minimal and foreclosures were delayed for extended periods.

The DC and Los Angeles field offices attributed most of their problems to insufficient staff and cited the tremendous caseloads carried by the servicers as examples. However, as shown in the following chart, we found that the caseload per staff did not vary significantly among the three offices when total caseload to asset manager was considered — a range of 209 to 258 cases. Although the Fort Worth field office had twice the asset managers, it also had twice the caseload.

Field Office	Number of			Average Caseload Per	
	Assignment Cases	Asset Managers	Asset Managers Servicing	Asset Manager	Asset Manager Servicing
Fort Worth, TX	4185	20	20	209	209
Washington, DC	2065	8	3	258	688
Los Angeles, CA	2258	9	3	251	753

Where the tremendous difference occurred is in caseload per *asset manager assigned to the servicing function*. While even the lowest caseload per asset manager — 209 — was greater than the HUD recommendation of 150 to 174, 200 was still within a workable range. Clearly, caseloads in excess of 600 were unworkable.

The DC and Los Angeles field offices explained that the bulk of the staff was assigned to processing assignment applications because 90 day processing was both a management goal and a critical rating factor in the Single Family Director's performance agreement. Servicing assignment cases and inspecting properties was not. Notwithstanding the emphasis on new applications, we noted that the DC office was still taking up to a year to process applications.

To gauge the impact of the varying office structures and to determine how the field offices were dealing with difficult cases, we selected samples of cases from each office where payment had not been made for at least six months, or where the case was coded foreclosure. Our review of cases serviced by the Fort Worth field office disclosed only isolated problems. We did not, however, find the DC and Los Angeles field offices operating at that same level of performance.

### **Common Collection Tools Not Used**

One problem common to all three offices was the failure to use common collection tools of the type already effectively used by private industry. Collection tools, allowed under the Federal Debt Collection Act but not used by the field offices, include collection agencies and payroll and IRS offset. Even a simple tool such as reporting delinquencies to credit bureaus was not done because, field office staff told us, there was no requirement to do so and they were concerned the homeowners insurance might be cancelled if it was known the mortgagor was in financial difficulty.

In reality, not reporting delinquent mortgages had allowed mortgagors to obtain more credit. In one case a mortgagor was approved for the assignment program in 1990. Over the next three years HUD received only a few payments on the \$63,885 mortgage; the last in September 1993. However, in December 1993, when HUD was owed \$27,000 in interest, the mortgagor got a \$5,000 bank loan and assumed another FHA loan of \$74,500. The mortgagor's credit report for the period did not reflect the indebtedness to HUD, but instead showed all accounts current, including a boat loan of \$34,000, a paid off vehicle loan of \$22,500 and a jewelry loan of \$2,800.

### **Properties Lost at Tax Sales**

When HUD accepts a property into the assignment program, it assumes the role of mortgagee, including establishing escrow accounts and paying taxes and other charges. We found that the Fort Worth field office was protecting assigned properties by paying real estate taxes promptly. The office kept abreast of the tax situation by requesting an annual list of HUD properties from the local taxing authority and monthly updates of properties sold or acquired. Those lists were reconciled with the field office records and necessary changes made.

The DC and Los Angeles field offices were not promptly paying taxes, resulting in properties being attached and sold to satisfy those liens. Nearly three-quarters of all properties in the DC field office inventory were located in one taxing authority. However, because the DC field office did not notify the authority when the field office should receive the tax bill, the authority only knew about 800 of about 1500 assigned properties in their jurisdiction. Conversely, the authority had identified HUD properties that the field office did not know were part of its inventory. We identified 51 properties at the taxing authority that were sold for delinquent taxes, apparently because of the confusion about responsibility. We informed the field office that those properties, for which \$4.1 million in insurance claims had been paid when the mortgages were originally assigned to HUD, were still redeemable. However, we identified a house assessed at over \$135,000 and two lots that were lost with no right of redemption. An additional 65 properties, for which HUD has paid \$5.7 million in claims, were in danger of being sold for delinquent taxes at the time of our review.

The Los Angeles field office also had problems with tax payments on assigned properties. Specifically, 11 of the 28 assigned properties we reviewed were delinquent and a lot assessed at \$20,000 had been lost. However, the more significant problem at this field office was in the Real Estate Owned branch. Taxes on properties in their inventory were not paid until closing. This practice is allowable under HUD regulations, however, there was no method of identifying and

paying taxes on properties not sold within one year. We identified nine properties held in the REO branch inventory scheduled to be sold without right of redemption. The delinquent taxes on those properties, for which \$1.1 million in FHA insurance claims had been paid for these properties, dated back to 1988. Over the years the tax liability for these nine properties had increased from \$60,600 to \$103,700 with penalties and fees.

Although the DC and Los Angeles field offices appeared concerned about the problem, we were told that paying taxes was not a priority or goal and staffing constraints required them to focus on the goal areas.

### **Foreclosures Not Used to Protect HUD's Investment**

Notwithstanding the problems already discussed, one of the most significant problems with the assignment program was the failure to foreclose on properties once all other forms of relief had been exhausted. Appropriate foreclosures not only prevent properties from sitting vacant and deteriorating, decreasing in value and negatively impacting surrounding neighborhoods, but also assure seriously delinquent mortgagors who continue to occupy their properties, are not subsidized for extended periods of time. Specifically, we found that foreclosures were not being properly identified, processed or tracked.

HUD guidelines call for foreclosure to be recommended after the fourth month of delinquency. At the time of our review there were about 10,500 assigned properties, representing \$543 million in principal, on which no payment had been made for at least *six months*. Further, nearly one-third, or 3,600 of those properties, representing \$192 million in principal, had no payment history *at all*. The Fort Worth field office had less than 9 percent of its portfolio where no payments had been made for at least six months, whereas both the DC field office and the Los Angeles field office had at least 25 percent or more of its portfolio in this category. It must be noted that these numbers do not reflect the total number of seriously delinquent cases in the assignment portfolio because any payment, no matter how small or delayed, removes the case from the six month delinquency report.

Regardless of the significance of the problem and the fact that some mortgagors had even requested HUD foreclose their loans, the DC and Los Angeles offices were not quick to identify foreclosures. Our review of 21 files at the DC field office disclosed 4 that were over 8 months delinquent but not marked for foreclosure, including a property where the mortgagor had lived over 10 years without making a payment. Of the 80 cases we reviewed at the Los Angeles field office, there were at least 15 that should have been with the foreclosure contractor that were not. One mortgagor accepted into the assignment program in 1987, had not made a payment since 1991 and still was not identified for foreclosure.

We were told that little attention had been paid to delinquencies because for 2 years there were no contractors to handle foreclosures. Prior to 1991 HUD had negotiated and administered foreclosure contracts at the headquarter's level. In March 1991, the field offices were instructed not to send new cases to the contractors because of problems with the contracts. In February

1992, the decision was made to award foreclosure contracts at the field office level. Funding for those local contracts, however, was not provided until 1993.

The field offices we visited responded to this challenge in various ways. Not only had the Fort Worth field office used various means, including attorneys from the field Office of General Counsel to process foreclosures in-house between 1991 and 1993, but a local contractor was procured almost as soon as funding was provided. Going a step further, the field office assigned a staff member to specifically package open cases for referral to the contractor. Taking the initiative meant there was a minimal backlog of cases and the transition to the contractor went smoothly. At the time of our review, all of the delinquent cases in our sample from the Fort Worth field office had been identified and sent to the foreclosure contractor.

The DC and Los Angeles offices, on the other hand, took no action until local funding was provided. Even then, the DC field office took nearly 2 years to finalize the contracts with attorneys and only a few cases had been referred at the time of our review. Of 17 cases in our sample coded foreclosure — 6 of which were already 18 months or more delinquent in 1991 when the former contract was terminated — only 2 had been sent to the contractor. The Los Angeles field office worked more quickly and negotiated a foreclosure contract a few months after funding was provided. However, despite its speed, and the fact that 300 cases had been referred to the local contractor, at the time of our review there were still cases in the Los Angeles office that had been pending prior to 1991.

Part of the problem with the backlog of old, unforeclosed cases could be attributed to management goals. Field staff were evaluated on the pure number of foreclosures, without consideration for the age or complexity of the case. Therefore, older cases requiring more time to resolve and process were set aside in deference to more recent, simpler foreclosures — essentially it had become a *last in, first out* process.

In addition to the monies HUD has already paid out in insurance claims, HUD is continuing to pay tax advances and accumulate additional arrearages in principal and interest payments. At the end of fiscal year 1994, HUD was owed \$48.7 million for advanced taxes over and above what was collected from the mortgagors.

Controlling foreclosures was not helped by the fact that the Single Family Mortgage Note System (SFMNS), the management information system used to track assigned properties, does not show the status of foreclosures. At the time of our review there were 8,717 cases coded foreclosure, representing \$415.3 million in principal. Of that amount, 1,049 cases, representing \$50.1 million in principal, had no payment history at all. However, once a case was coded foreclosure, it no longer showed up on the delinquency report used by the field staff and was no longer monitored by activity tracking in the SFMNS. We found cases coded foreclosure where no foreclosure activities were ongoing — either the cases had not been sent to a foreclosure contractor or had been returned from an old contractor and not forwarded to the new contractor.

Examples of such *lost* cases include a property accepted into the assignment program in February 1985 for which no payments were made. The case was coded for foreclosure in mid-1988 but never sent to the contractor. Another property, accepted into the assignment program in April 1986, for which no payments were made, was forwarded to a foreclosure contractor in early 1988. Although the foreclosure was not completed by the original contractor, the case had not been sent to the current contractor and the servicing file could not be located. In both examples the mortgagors continued to live in the homes without payment while HUD paid the taxes and related expenses totalling \$25,526. Although the cases cited were older cases, conditions had not changed and there was no assurance that cases not promptly sent to a foreclosure contractor, or not adequately controlled by the field office, would not continue to fall through the cracks.

### **Bankruptcies Not Tracked or Monitored**

Filing bankruptcy invokes an automatic stay on foreclosure and establishes a court ordered payment plan. However, when payments are not made in accordance with that plan, HUD may petition for a lift of the stay and continue the foreclosure process. We found that the Fort Worth field office was monitoring bankruptcy cases and requesting relief to complete the foreclosure process when appropriate, but the other two field offices were not.

At the time of our visit, the Fort Worth field office was tracking 62 bankruptcies out of 123 active cases at their foreclosure contractor. The DC field office, on the other hand, was filing proofs of claim with the courts to be on the list of debtors, but not tracking payments or seeking relief from the stay when payments were not made. The Los Angeles office was not even filing proof of claim. Bankruptcy cases were coded in the system but not monitored for payments. There was some question at the Los Angeles office as to who had the authority to get the stays lifted, either the foreclosure contractor, the HUD field staff, or the Department of Justice.

It is important that HUD closely monitor bankruptcy cases, not only to protect its interest but because it appeared some mortgagors deliberately used repeated bankruptcy filings to delay foreclosure. Of the 153 bankruptcy cases handled to date by the Fort Worth contractor, 14 have filed bankruptcy more than once. In one case, a mortgagor was accepted into the assignment program in 1992 and filed bankruptcy in January 1994. The case was dismissed in April 1994, but a week later the mortgagor filed again. HUD had the foreclosure stay lifted in September 1994, and in November the court ruled that the mortgagor could not refile for a year. However, on December 5, 1994, the mortgagor again filed bankruptcy, in violation of the court order. HUD foreclosed on the property December 6, 1994 and in June 1995, the foreclosure sale was validated and the bankruptcy dismissed. As shown in this example, although the process was time consuming, HUD was still able to protect its interest.

### **Properties Not Transferred Promptly**

The Asset Management Branch is responsible for transferring title of foreclosed properties to the Real Estate Owned Branch for disposition. Once in the disposition inventory, the Real Estate Owned Branch is responsible for protecting the property prior to sale. We found that the Fort

Worth field office averaged 78 days to transfer properties and the Los Angeles field office 180 days. (The DC field office had not foreclosed on any properties since 1991, therefore it had no titles related to foreclosures to transfer.) Although Fort Worth's performance was better because it was more diligent at reconciling the assignment inventory with the disposition inventory, the undue delays were caused primarily by an antiquated method of notifying the Real Estate Owned Branch that a property was available for disposition.

Currently, the Real Estate Owned branch learns of a foreclosure when the Asset Management branch sends it a notice to activate a case in its inventory system — the Single Family Asset Management System (SAMS). The Asset Management branch also notifies headquarters to close the case out its inventory system — the Single Family Mortgage Notes System. Having two systems and three involved divisions slows notification and enhances the potential for once again *losing* or incorrectly classifying cases.

The impact of the errors surfaced during recent sales of the assigned portfolio. There were 600 loans in the Los Angeles inventory identified to be sold. Of the 63 such loans included in our sample, only 15 were actually submitted. The other properties had either already been sold by the Real Estate Owned branch or had recently been sent to the foreclosure contractor. In Fort Worth properties sold in the June 1994 asset sale were still in SAMS as custodial properties. Because there is no policy to notify the Real Estate Owned branch in the field offices of the properties sold in the sale and the Real Estate Owned branch had not been informed of those previous sales, not only were the inventory records incorrect, but the branch continued to pay for preservation and protection on those properties.

### **Servicing Problems Are About to Get Worse**

HUD is looking to the sale of single family properties, in the assignment program for three years or more, as the panacea for many of its problems. However, while those sales may moderately reduce the inventory of defaulted properties, it appears that a recent policy change will tremendously increase the influx of new assignments. The result may be a major hemorrhage of a program already grown beyond HUD's demonstrated ability to manage.

HUD's original guidelines called for HUD to evaluate assignment applications to determine the likelihood that an applicant will recover economically and eventually pay the mortgage in full. Only those considered likely to make the transition are accepted into the assignment program. The single family assignment processing report for the 9 months ended June 30, 1995, showed that lenders requested assignment of about 8,800 loans. HUD accepted 2,370, about 25 percent.

Under revised guidelines lenders review cases and recommend borrowers for assignment while HUD must accept the assignment as long as the loan files are complete. In this scenario, if all the files were complete, the field offices' additional caseload for the first 9 months of fiscal year 1995 would have been 8,800, not 2,370.

The argument could be made that lenders will make the same hard decisions that the field offices have and only refer those borrowers who have a chance to recover and go through the process of foreclosing on those who do not. There appears to be little incentive for lenders not to reduce their costs and administrative burden by referring most, if not all, cases to the assignment program, collect the mortgage insurance and shift responsibility for collecting from these high-risk borrowers to HUD.

The reasons espoused for the change — decrease in field staff, need to ensure consistency, and acceptance of cases while delinquencies are low — are all understandable. However, it is not clear how there will be more consistency when the same group of people will be processing the paperwork or how increasing the number of mortgages in the assignment program will counteract decreases in staff.

---

## Recommendations

We recommend that Single Family Housing:

1. Evaluate the effectiveness of the Fort Worth field office as a possible model of how to effectively service HUD's assigned portfolio. If the model is found to be effective, implement a similar structure in the other field offices.
2. Institute common collection tools, such as requiring the field offices to report delinquent mortgagors to credit bureaus and utilizing tax offset, federal employee wage offset, and collection agencies.
3. Sell bankruptcy cases already in inventory as soon as possible or aggressively monitor.
4. Consider using a quick reaction team to review inventory of assigned properties and take necessary servicing actions (ie., forbearance agreements, foreclosure, or loan sale).
5. Revise goals to include:
  - Addressing cases based on an aging of the portfolio as opposed to counts (ie., number of foreclosures).
  - Improving servicing of the loans (ie., collections, inspections, renewal of forbearance agreements).
6. Integrate the Single Family Mortgage Notes System and the Single Family Asset Management System to better control cases in HUD's loan portfolio and real estate owned

inventory. Areas such as tax payment processing should be combined (ie., two systems and two payments, yet both systems are under the same contractor - Electronic Data Systems (EDS)).

7. Consider making one branch (ie. Asset Management, Real Estate Owned, or some combination of the two) in each field office responsible for paying taxes to better coordinate payments and resolve any problems with local taxing authorities.
8. Issue policy requiring notification of the field offices (both Asset Management and Real Estate Owned branches) of properties sold in asset sales and other case or property transfers. Reconciliations should be continuously conducted between the field office branches.



9. Instruct the Los Angeles field office to pay taxes for the properties scheduled to be sold without right of redemption and to discontinue the practice of only paying taxes at closing. Also, the Washington, DC and Los Angeles, CA field offices should be instructed to apply for surplus funds resulting from the nonredeemable sale of properties due to tax delinquencies and reconcile their inventories on an ongoing basis with the local taxing authorities.
- 

## **Office of Single Family Housing's Comments and OIG Evaluation**

We obtained written comments from the Deputy Assistant Secretary for Single Family Housing, which are printed in their entirety as Appendix A to this report. The Deputy Assistant Secretary partially agreed with our recommendations pending the termination of the assignment program. We believe our recommendations, with the exception of number 6, could be implemented regardless of whether the program is terminated. In addition, we believe we need to clarify our recommendations regarding the use of collection tools, the sale/monitoring of bankruptcy cases, the transfer of assets between branches, and the reconciliation with taxing authorities.

The Deputy Assistant Secretary stated that Housing prefers to emphasize the prospect of efficient foreclosure as its primary collection tool. We provided the collection tools recommendation as an alternative to get the mortgagor back on track and current with their loans. When we performed our review foreclosure did not seem to be the primary choice for collection of these defaulted loans and usage of other types of collection tools were not evident. In fact, HUD guidance for the assignment program considers foreclosure as the collection tool of last resort. We realize foreclosure, when inevitable, should be expedited and we support that approach. However, it was our intent that if you were running a program to keep people in their homes other methods could be tried to enforce collection other than the threat of foreclosure. Even a simple collection tool such as reporting the defaults to a credit bureau could get a mortgagor back on track and prevent them from obtaining additional credit.

The Deputy Assistant Secretary stated that Housing was already identifying and selling bankruptcy cases in its asset sales. We provided our recommendation to sell or aggressively monitor bankruptcy cases because in most cases when a mortgagor filed for bankruptcy, little or no monitoring by the field offices was performed once the bankruptcy was filed. We realize that the sales are now taking place and include bankruptcy cases, however during the time between sales and in the event that sales are not progressing as quickly as planned, these mortgagors are still not being aggressively monitored. The field offices still need to actively monitor to see if the mortgagors are following the court repayment plans and that HUD's rights as a creditor are protected, maintained, and enforced.

The Deputy Assistant Secretary, in response to our recommendation of issuing policy notifying field offices of properties sold in asset sales or property transfers, stated that they agreed and this is the current procedure. During our review, we found no written policy implementing this

procedure, and in some cases, transfers of the properties after foreclosure were taking up to six months. The Real Estate Owned Branches also were not being notified when loans were sold. This resulted in properties being maintained by the Real Estate Asset Managers (REAMS) even after they were sold. We believe if this is current procedure it needs to be enforced.

Further, the Deputy Secretary agrees that the field offices should reconcile with taxing authorities and will discuss the feasibility with those offices. We believe that these offices need to be instructed to reconcile inventory with the local taxing authorities on an ongoing basis. Also, we believe that our other recommendations regarding the payment of taxes and recovery of surplus funds need to be addressed. It is imperative that the Los Angeles and Washington DC field offices be instructed to pay the taxes of the properties timely to ensure that additional properties are not lost at tax sales. The Los Angeles office needs to be instructed to discontinue the practice of paying taxes only at closing and both offices need to reconcile and apply for any surplus funds that the taxing authorities are holding from properties that were already sold.

---

# Internal Controls

In planning and performing our audit, we considered internal controls relating to the Washington, DC, Fort Worth, TX, and Los Angeles, CA, field offices' foreclosure processing under the Single Family Assignment Program and real estate tax payment processing for both Single Family Assigned and Real Estate Owned Cases. This was done in order to determine our auditing procedures and not to provide assurance on internal controls.

Internal controls consist of a plan of organization and methods and procedures adopted by management to ensure 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, maintained, and fairly disclosed in reports.

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

- HUD regulations, handbooks, and directives
- HUD management oversight
- Organization and staffing
- Reports
- Foreclosure case management
- Real estate tax payment processes

We assessed all the relevant control areas identified above.

Weaknesses exist if internal 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, maintained, and fairly disclosed in the financial statements and reports.

Based on our review, there are weaknesses in Single Family Assignment Program. These weaknesses are described in the Results of Audit Section of this report.

(This Page Intentionally Left Blank)

---

## Internal Controls

In planning and performing our audit, we considered internal controls relating to the Washington, DC, Fort Worth, TX, and Los Angeles, CA, field offices' foreclosure processing under the Single Family Assignment Program and real estate tax payment processing for both Single Family Assigned and Real Estate Owned Cases. This was done in order to determine our auditing procedures and not to provide assurance on internal controls.

Internal controls consist of a plan of organization and methods and procedures adopted by management to ensure 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, maintained, and fairly disclosed in reports.

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

- HUD regulations, handbooks, and directives
- HUD management oversight
- Organization and staffing

- Reports
- Foreclosure case management
- Real estate tax payment processes

We assessed all the relevant control areas identified above.

Weaknesses exist if internal 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, maintained, and fairly disclosed in the financial statements and reports.

Based on our review, there are weaknesses in Single Family Assignment Program. These weaknesses are described in the Results of Audit Section of this report.

(This Page Intentionally Left Blank)

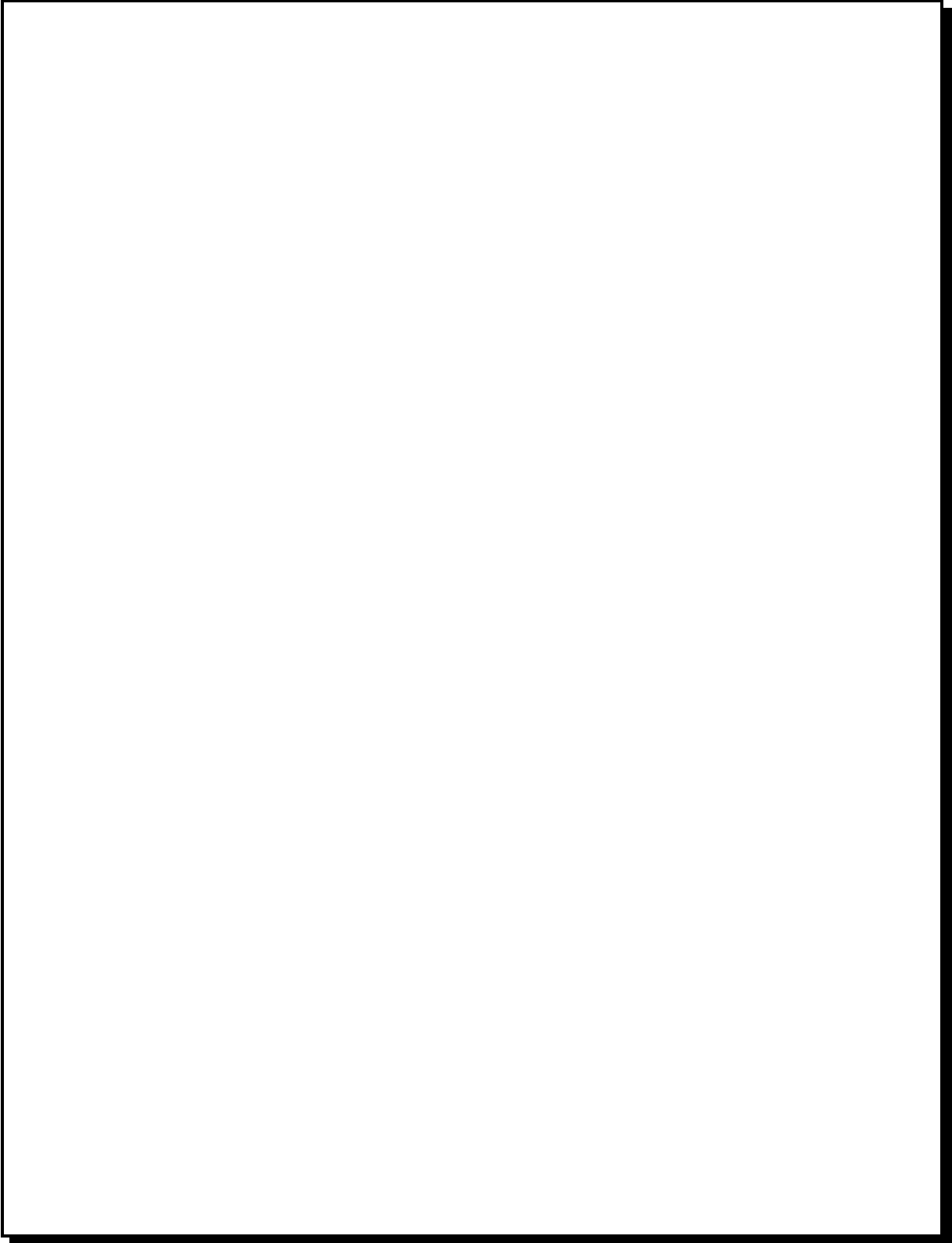
---

# Auditee Comments

A large, empty rectangular box with a black border, occupying most of the page. It is intended for the auditee to provide comments.







(This Page Intentionally Left Blank)

# Distribution

## HEADQUARTERS (NON-OIG)

Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)  
 Deputy Assistant Secretary for Single Family Housing, HS, (Room 9282)  
 Assistant to the Secretary for Field Management, SC, (Room 7106)  
 Comptroller/Housing Audit Liaison Officer, (Room 5132) (4)  
 Director, Office of Insured Family Housing, HSI, (Room (9266)  
 Director of Single Family Property Disposition, HSIP, (Room 9172)  
 Director of Single Family Servicing Division, HSIS, (Room 9178) (3)  
 Chief Financial Officer, F, (Room 10166) (2)  
 Deputy Chief Financial Officer for Operations,  
 FO, (Room 10166) (2)  
 Director, Division of Housing Finance Analysis, TEF, (Room 8212)  
 Director, Office of Management and Planning, AM, (Suite 310), Washington Office Center  
 401 Third Street, SW, Washington, DC 20024  
 Director, Division of Policy Development, TPP, (Room 8110)  
 Director, Office of Budget, AB, (Room 3270)  
 Acquisitions Librarian, Library, AS, (Room 8141)  
 Director, Single Family Division, 3GHM  
 Director, Single Family Division, 6AHS  
 Director, Single Family Division, 9DHS

## DISTRIBUTION OUTSIDE HUD

Assistant Director in Charge, U.S. General Accounting Office, GAO Attn: Mr. Cliff Fowler  
 (Suite 150), Bldg 2, 820 1st Street NE, Union Plaza Washington, DC 20002  
 Department of Veterans Affairs, OIG (52A), 810 Vermont Ave., NW, Washington, DC  
 20420