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Memorandum

TO: Joseph M. Gormley
Deputy Assistant Secretary for Single Family Housing, HU

FROM: *//signed//*
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SUBJECT: Opportunities Exist to Improve HUD's Responses to Inquiries From Borrowers, Industry Partners, and the General Public Regarding Forbearance and Foreclosure Relief Provided by the CARES Act

INTRODUCTION

As part of the Office of Inspector General's (OIG) effort to provide oversight of the U.S. Department of Housing and Urban Development's (HUD) relief efforts provided by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act),¹ we reviewed HUD's responses to inquiries regarding forbearance and foreclosure relief. The objective of our review was to evaluate the accuracy of HUD's responses to inquiries from borrowers, industry partners,² and the general public regarding forbearance and foreclosure relief provided by the CARES Act. We found that HUD could improve its customer service to borrowers, industry partners, and the general public by providing more direct, accurate, and complete responses to their inquiries.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that the OIG post its reports on the OIG website. Accordingly, this memorandum will be posted at <https://www.hudoig.gov>.

SCOPE AND METHODOLOGY

We conducted our review from May 6 to June 5, 2020. Our review covered events that occurred during the period March 27 through April 30, 2020.

¹ Public Law 116-136, dated March 27, 2020

² Industry partners include mortgage servicers, real estate agents, housing counseling agents, nonprofit organizations, and local government agencies.

To accomplish our objective, we reviewed

- applicable legislation, regulations, HUD handbooks, and guidance;
- the contract between HUD and the contractor operating its Federal Housing Administration (FHA) Resource Center;
- the FHA Resource Center's standard operating procedures;
- the FHA Resource Center's knowledge base management plan;
- the FHA Resource Center's procedures for addressing COVID-19 and CARES Act inquiries; and
- HUD's FHA knowledge base of frequently asked questions and answers, known as knowledge base articles.³

We also interviewed HUD Office of Single Family Housing staff.

We verified that the answers in the knowledge base articles that HUD developed to address inquiries regarding forbearance and foreclosure relief under the CARES Act were consistent with the language in the CARES Act. HUD developed and included 72 articles in the knowledge base regarding forbearance and foreclosure relief under the CARES Act. Customer service representatives in the FHA Resource Center used the knowledge base articles to answer inquiries. If the customer service representatives could not answer an inquiry using the knowledge base, they sent the inquiry to either HUD's National Servicing Center (NSC)⁴ or the appropriate HUD Homeownership Center (HOC)⁵ for resolution. Generally, the customer service representatives route inquiries related to forbearance and foreclosure to NSC, but depending on the nature of the inquiry, they may route an inquiry to a HOC.

To achieve our review objective, we relied in part on computer-processed data, such as email records related to inquiries received by the FHA Resource Center that are stored in HUD's Microsoft Dynamics Customer Relationship Management system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes. The testing entailed comparing the computer-processed data to the actual Microsoft Outlook emails provided by HUD.

³ The FHA knowledge base is a secure management system used to store and organize comprehensive information needed to respond to inquiries from the general public and the housing industry relevant to HUD programs. The knowledge base is public facing and includes more than 2,000 individual preformatted knowledge articles. Each knowledge article consists of a frequently asked question, an answer to the question, and reference sources, if applicable. <https://www.hud.gov/answers>

⁴ HUD's NSC is located in Oklahoma City and Tulsa. It works with FHA homeowners and their lenders to avoid foreclosure. NSC staff also provides direction and training to mortgage lenders and housing counseling agencies, which are then better able to provide assistance to homeowners.

⁵ HUD HOCs are located in Atlanta, Philadelphia, Denver, and Santa Ana, each supporting mortgage insuring processes in their specific geographic area.

During the period March 27 through April 30, 2020, the FHA Resource Center received 1,498 inquiries⁶ related to forbearance and foreclosure relief provided by the CARES Act. Of those 1,498 inquiries,

- 1,269 were answered by the FHA Resource Center contractor and
- 229 were sent on to HUD by the contractor and answered by HUD.⁷

We used a random number generator and selected a representative nonstatistical sample of 138 of the 1,498 inquiries to evaluate the accuracy of the responses provided to borrowers, industry partners, and the general public regarding forbearance and foreclosure relief provided by the CARES Act. This approach allowed us to quickly obtain sufficient information to answer the review objective. Of the 138 inquiries reviewed,

- 49 were received by telephone and answered by the contractor,
- 45 were received by email and answered by the contractor, and
- 44 were sent on to NSC by the contractor and answered by NSC.

To evaluate the accuracy of the responses for the 49 inquiries received by telephone and answered by the contractor, we listened to audio recordings and reviewed followup email records sent by the contractor to the customers. To evaluate the accuracy of the responses for the 45 inquiries received by email and answered by the contractor and the 44 inquiries sent on by the contractor and answered by NSC, we reviewed email records from HUD's Microsoft Dynamics Customer Relationship Management system. We compared the responses for all 138 inquiries in our sample to the responses in HUD's knowledge base and other relevant guidance, such as mortgagee letters and HUD's Single Family Handbook 4000.1. The results from our review were limited to those inquiries, and we did not project our results to the population.

We conducted the review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective(s). We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

In planning and performing our review, our objective was to highlight HUD's responses to inquiries that were received by the FHA Resource Center regarding forbearance and foreclosure relief provided by the CARES Act. Our objective was not to provide assurance of HUD's internal controls over its responses to inquiries from borrowers, industry partners, and the general public regarding forbearance and foreclosure relief. Therefore, we did not assess HUD's controls or express an opinion on them. Further, note that while the CARES Act did not provide a specific standard for responding to inquiries, we reviewed and compared HUD's responses to inquiries to its knowledge base and other relevant guidance to evaluate the accuracy of its responses.

We did not request and HUD did not provide formal written comments for inclusion in the final memorandum.

⁶ 1,141 by telephone, 334 by email, and 23 through the online support center

⁷ 225 sent to the NSC and 4 sent to a HOC

BACKGROUND

On March 27, 2020, the President signed the CARES Act into law to provide economic relief to individuals and businesses impacted by the COVID-19 pandemic. Under the terms of the CARES Act, during the pandemic, a borrower with a federally backed mortgage loan⁸ experiencing a financial hardship due, directly or indirectly, to the COVID-19 emergency may request forbearance on the federally backed mortgage loan, regardless of delinquency status, by (1) submitting a request to the borrower's servicer and (2) affirming that the borrower is experiencing a financial hardship during the COVID-19 emergency.

Under the CARES Act, mortgage servicers were required to grant forbearance for a period of up to 180 days, plus an additional 180 days at the request of the borrower. The borrower also had the option at any time to shorten the forbearance period and resume payments. To request forbearance, borrowers did not need to provide documentation showing their hardship and only had to "attest" to their servicer that they were suffering a financial hardship. During the forbearance period, servicers could not charge borrowers additional fees, penalties, or interest. Additionally, servicers were required to cease any foreclosure activities for a period of 60 days beginning on March 18, 2020. HUD extended the foreclosure moratorium three times. The current foreclosure moratorium ends on December 31, 2020.⁹

The CARES Act provided no guidance to servicers regarding the repayment of amounts not paid during the forbearance period. However, with respect to FHA loans, FHA provided guidance to lenders and borrowers. Generally, a borrower who received forbearance under the CARES Act was responsible for repaying the suspended mortgage payments or the balance of reduced mortgage payments. Specifically, FHA provided guidance to borrowers stating how and when total missed payments would need to be repaid. FHA clarified that borrowers would not be required to pay a "lump-sum" repayment at the end of the forbearance period. For any owner-occupant borrowers who received forbearance under the CARES Act, the lender was required to evaluate the borrower for the COVID-19 stand-alone partial claim¹⁰ no later than the end of the forbearance period. If a borrower was not eligible for a COVID-19 stand-alone partial claim, the standard FHA loss mitigation options would apply.

⁸ A federally backed mortgage loan includes any loan, which was secured by a first or subordinate lien on residential real property (including individual units of condominiums and cooperatives) designed principally for the occupancy of from one to four families that is (1) insured by FHA under Title II of the National Housing Act (12 U.S.C. (United States Code) 1707 et seq.), (2) insured under Section 255 of the National Housing Act (12 U.S.C. 1715z-20), (3) guaranteed under Section 184 or 184A of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-13a, 1715z-13b), (4) guaranteed or insured by the U.S. Department of Veterans Affairs, (5) guaranteed or insured by the U.S. Department of Agriculture, (6) made by the U.S. Department of Agriculture, or (7) purchased or securitized by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.

⁹ On May 14, 2020, HUD published Mortgagee Letter 2020-13 extending the foreclosure moratorium through June 30, 2020. On June 17, 2020, HUD published Mortgagee Letter 2020-19 further extending the foreclosure moratorium through August 31, 2020. On August 27, 2020, HUD published Mortgagee Letter 2020-27 further extending the foreclosure moratorium through December 31, 2020.

¹⁰ A partial claim is a no-interest, junior loan secured by the borrower's property. For a COVID-19 stand-alone partial claim, no payments are due until the payoff, maturity, or acceleration of the insured mortgage, including the sale of the property or a refinancing, or the termination of FHA insurance on the mortgage.

To address inquiries and questions from borrowers, industry partners, and the general public about its home mortgage insurance programs, HUD created the FHA Resource Center. The FHA Resource Center acts as the first line of response to provide prompt, accurate, and consistent responses to all inquiries regarding FHA. The FHA Resource Center receives inquiries by telephone or email or through its online support center. In May 2015, HUD awarded a 5-year contract to a contractor to operate the FHA Resource Center. In April 2020, HUD extended its contract with the contractor for an additional year through April 2021.

RESULTS OF REVIEW

Opportunities exist to improve HUD's responses to inquiries from borrowers, industry partners, and the general public regarding forbearance and foreclosure relief provided by the CARES Act.

HUD Staff Could Improve the Accuracy and Completeness of its Responses to Inquiries

Of the 44 inquiries sent on by the contractor to and answered by NSC staff, 30 responses (68 percent) were accurate and complete based on the forbearance and foreclosure relief options under the CARES Act. Fourteen responses (32 percent) were partially accurate and incomplete. Of these 14 responses, 9 were related to inquiries made by industry partners (8 mortgage servicers and 1 housing counselor), and 5 were related to inquiries made by borrowers. For these 14 inquiries, NSC staff did not clearly answer inquiries related to (1) eligibility requirements for forbearance, (2) stand-alone partial claims, and (3) foreclosures.

NSC staff responded to 10 of the 14 inquiries by referring customers to HUD guidance, such as the knowledge articles in the knowledge base on its website, mortgagee letters, and HUD Single Family Handbook 4000.1. Although NSC staff directed the customers to applicable guidance, it did not provide a clear answer to the inquiry and made it difficult for the customers to find answers. Customers may have had a difficult time finding answers in the knowledge base because they needed to navigate through the nearly 2,000 articles listed to find an answer. In addition to directing these customers to HUD guidance, in two cases, NSC staff stated that servicers were required to interpret and determine how to comply with HUD policy. NSC staff further stated that HUD was not authorized to offer an opinion related to the processes and strategies employed by servicers to mitigate risk or comply with published policy. HUD could have provided a better customer service experience by providing direct answers to inquiries by its customers, especially to its industry partners, who would then use the information to help borrowers navigate through the COVID-19 pandemic.

For 3 of the 14 inquiries, NSC staff responded by accurately stating that the customers were eligible for forbearance but failed to inform the customers that the lender was required to evaluate them for the COVID-19 stand-alone partial claim by the end of the forbearance period.

For the remaining inquiry, NSC staff appeared to misunderstand the customer's inquiry. Specifically, the customer asked whether interest and fees could be suspended due to the pandemic. However, NSC staff responded by stating that the customer needed to refinance the mortgage to lower its interest rate. NSC staff's response did not answer the customer's inquiry.

HUD Generally Responded Accurately and Completely to Inquiries That Were Received by Email

Of the 45 inquiries received by email and answered by the contractor, 39 were accurate and complete (87 percent) based on the forbearance and foreclosure relief options under the CARES Act. Six responses (13 percent) were partially accurate and incomplete. Of these six responses, four were related to inquiries made by industry partners (mortgage servicers), and two were related to inquiries made by borrowers. For these six inquiries, the customer service representatives did not clearly answer inquiries related to forbearance, such as whether

- a borrower was required to submit a completed loss mitigation package at the end of the forbearance period,
- a loan originated after March 1, 2020, was still eligible for the stand-alone partial claim,
- there was a maximum term that HUD would allow for a forbearance repayment plan,
- specific default reporting status codes should be used for borrowers impacted by COVID-19,
- FHA loans backed by the Government National Mortgage Association were eligible for forbearance, and
- the COVID-19 forbearance was considered delinquent for credit reporting purposes.

Although the customer service representatives used the knowledge base and other related guidance, such as mortgagee letters, to provide customers with information related to CARES Act relief options, the responses did not clearly answer the customers' inquiries. For example, for an inquiry from a mortgage servicer about whether a borrower was required to submit a completed loss mitigation packet at the end of the forbearance period, the customer service representative only provided knowledge base articles regarding automatic extensions to foreclosure deadlines and the process after the expiration of the COVID-19 foreclosure and eviction moratorium. These knowledge base articles did not clearly answer the question of whether a borrower was required to submit a completed loss mitigation packet at the end of the forbearance period.

HUD Responded Accurately and Completely to Inquiries That Were Received by Telephone

Of the 49 inquiries received by telephone and answered by the contractor, all of the responses were accurate and complete based on the forbearance and foreclosure relief options under the CARES Act. The customer service representatives handling the telephone calls provided accurate responses, using the knowledge base and other related guidance, such as mortgagee letters, and in most cases, provided the customers with a followup email containing the knowledge base that was discussed during the call. In cases in which the customer voiced concerns about his or her lender's not following CARES Act mortgage relief options, the customer service representative provided the customer with information on how to file complaints against the lender.

Summary

The table below summarizes the results of our review.

Summary of review results

Inquiry response provided by contractor or NSC	Number of inquiries reviewed	Method of inquiry	Number of accurate responses	Percentage of accurate responses
Contractor	49	Telephone	49	100%
Contractor	45	Email	39	87%
Contractor total	94		88	94%
NSC total	44	Received from contractor	30	68%
Overall total	138		118	86%

Conclusion

Overall, HUD provided accurate and complete responses to 118 of 138 inquiries (86 percent) reviewed regarding forbearance and foreclosure relief provided by the CARES Act. HUD's NSC provided accurate and complete responses to 30 of 44 inquiries (68 percent) reviewed, and the contractor operating the FHA Resource Center provided accurate and complete responses to 88 of 94 inquiries (94 percent) reviewed. Although the contractor responded accurately to a high percentage of inquiries, HUD staff could provide better customer service to borrowers, industry partners, and the general public with more direct, accurate, and complete responses to inquiries.