



U.S. Department of Housing and Urban Development Office of Single Family Housing Washington, DC

COVID-19 Forbearance Reporting

**Office of Audit
Kansas City, KS**

**Audit Report Number: 2021-KC-0005
August 16, 2021**



OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: Julienne Y. Joseph
Deputy Assistant Secretary for Single Family Housing, HU

//signed//

From: Kilah S. White
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Subject: COVID-19 Forbearance Data in HUD's Single Family Default Monitoring System Generally Agreed With Information Maintained by Loan Servicers

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Federal Housing Administration-insured loans to determine whether COVID-19 forbearance data available in HUD's Single Family Default Monitoring System was generally consistent with the loan information maintained by loan servicers reviewed.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

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

If you have any questions or comments about this report, please do not hesitate to call Carrie Gray, Acting Audit Director, at (314) 539-6339.

Highlights

What We Audited and Why

We audited lender reporting of COVID-19 forbearances for Federal Housing Administration (FHA)-insured loans in the Single Family Default Monitoring System (SFDMS). A COVID-19 forbearance is a pause in mortgage payments authorized by the CARES Act. We compared default reporting data from SFDMS to loan data provided by five sampled servicing lenders that serviced a third of the FHA single-family portfolio.

We initiated this audit to find out whether HUD received accurate monthly default reporting records from servicers. Our audit objective was to determine whether COVID-19 forbearance data available in SFDMS were consistent with the information maintained by loan servicers.

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COVID-19 Forbearance Data in HUD's Single Family Default Monitoring System Generally Agreed With Information Maintained by Loan Servicers Reviewed

What We Found

COVID-19 forbearance data available in SFDMS were generally consistent with the information maintained by loan servicers reviewed. Nearly 90 percent of the loans in forbearance, according to the servicer records reviewed, were reported as such by the servicers in SFDMS. The remaining 10 percent of loans in forbearance, according to servicer records but not reported as forbearances in SFDMS, were properly accounted for. In addition, key metrics showed that servicers generally complied with HUD's forbearance reporting requirements.

What We Recommend

This report contains no recommendations.

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Background and Objective

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Public Law 116-136) into law. The CARES Act provides a mortgage payment forbearance option for all borrowers who, either directly or indirectly, suffer a financial hardship due to the COVID-19 national emergency. Under the CARES Act, borrowers are entitled to request an initial forbearance of their monthly mortgage payments for up to 180 days and may request up to an additional 180 days. For the borrowers who requested their initial COVID-19 forbearance on or before June 30, 2020, if needed, the borrower may request and the lender must approve up to two additional 3-month COVID-19 forbearance periods. A forbearance allows for reduced or suspended payments without specific terms of repayment.

The Federal Housing Administration (FHA) provides mortgage insurance on loans made by FHA-approved lenders. Since its inception in 1934, FHA has insured nearly 50 million mortgages. FHA mortgage insurance provides lenders with protection against losses as the result of borrowers' defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a borrower's default.

The Single Family Default Monitoring System (SFDMS) is the U.S. Department of Housing and Urban Development's (HUD) system for tracking the loan servicing lender's (servicer) data on delinquent mortgages until a delinquency is resolved through reinstatement or termination. The servicers must report in SFDMS the delinquency or default status codes that reflect the stage of delinquency or servicer action. Servicers are required to submit SFDMS reports to HUD monthly and include the reason for the default.

According to information reported by servicers in SFDMS, in October 2020, more than 800,000 FHA-insured loans were reported as in forbearance, as shown in the table below. SFDMS uses code 06 for formal forbearance and code 09 for special forbearance. COVID-19 forbearances are to be coded as formal forbearances.

October 2020 loan status	Number of loans	Percent of active portfolio
Loans reported with a formal forbearance code	816,565	10.27%
Loans reported with a special forbearance code	8,135	.10%
Active Portfolio	7,953,267	

Our audit objective was to determine whether COVID-19 forbearance data available in SFDMS were consistent with the information maintained by servicers.

Results of Audit

COVID-19 Forbearance Data in SFDMS Were Generally Consistent With the Data Maintained by Loan Servicers Reviewed

COVID-19 forbearance data available in SFDMS were generally consistent with the information maintained by loan servicers reviewed. Nearly 90 percent of the loans in forbearance, according to the servicer records reviewed, were reported as such by the servicers in SFDMS. The remaining 10 percent of loans in forbearance, according to servicer records but not reported as forbearances in SFDMS, were properly accounted for. In addition, key metrics showed that servicers generally complied with HUD's reporting requirements.

Nearly All Loans in Forbearance Were Properly Reported

Nearly 90 percent of the loans in forbearance, according to the servicer records, were reported as such by the servicers in SFDMS. This figure is based on data as of October 31, 2020, from five servicers that collectively serviced about one-third of the FHA portfolio. (See Scope and Methodology for sampling information.) Servicer records indicated that a total of 319,028 loans were in forbearance as of October 31, 2020, while SFDMS showed that 284,818 of these loans were reported in formal or special forbearance during the month. (See appendix B, table 1.) HUD Handbook 4000.1 required servicers to report the default status codes of all delinquent mortgages, which accurately reflected the stage of delinquency, and update that status monthly in SFDMS. (See appendix C.)

The remaining 10 percent of the 319,028 loans in forbearance (9,278 + 23,034) that were not reported as forbearances in SFDMS were either undergoing additional loss mitigation or were not delinquent (see appendix B, table 1) and were instead reported with status codes that were otherwise consistent with FHA directives. Servicers reported 9,278 of their loans in forbearance to SFDMS using a loss mitigation code rather than a forbearance code. HUD Handbook 4000.1 requires that on a monthly basis, servicers must report status codes for all mortgages that are 30, 60, and 90 days or more delinquent as of the last day of the month. Servicers are required to report the applicable status codes for new delinquencies, open delinquencies and delinquencies resolved during each month. The SFDMS training guide also instructs servicers to report a status code until the status of the loan changes and another status code applies. While the guide says a servicer can report more than one code, it says it is not necessary to do so. An interview with a HUD program director revealed that HUD expected servicers to stop reporting forbearance default codes when a loan was undergoing additional loss mitigation, such as a partial claim, started toward the end of the forbearance. While the reporting progression aligned with HUD's expectations, servicer forbearance records received did not contain information to allow us to corroborate correct loss mitigation reporting.¹ Servicers did not report an additional subset of 23,034 in-forbearance but nondelinquent loans to SFDMS as being in forbearance or loss mitigation. HUD's SFDMS training guide did not provide an avenue for servicers to report the

¹ See footnote 2

forbearance status of loans that had no outstanding loan payments. It explicitly stated that servicers should report only loans that were 30 days delinquent. Specifically, HUD Mortgagee Letter 2020-13 required servicers to report a loan as delinquent before reporting the forbearance code.

Other Key Metrics Revealed General Default Reporting Compliance

Key metrics showed that the five servicers generally complied with HUD's reporting requirements. We examined the oldest unpaid installment dates, forbearance codes, and default reason codes reported to determine compliance with HUD requirements. Nearly all of the loans with default records had matching oldest unpaid installment dates in SFDMS and servicer data. (See appendix B, table 2.) These servicers also appeared to use the national emergency default reason code correctly. HUD Mortgagee Letter 2020-13 instructed servicers to code COVID-19 forbearances as formal forbearances using the national emergency default reason code. Servicers reported the national emergency default reason code for 97.7 percent of the defaulted loans in forbearance. (See appendix B, table 3.) These servicers used the national emergency default reason code for only a small number of special forbearances. (See appendix B, table 4.)

Recommendations

There are no recommendations.

Scope and Methodology

We performed our audit work between October 2020 and March 2021. We did not conduct onsite fieldwork for this audit. Our audit period covered October 2020.

To accomplish our audit objective, we

- interviewed relevant HUD management and staff,
- reviewed relevant HUD requirements,
- reviewed relevant training guides, and
- reviewed FHA's audited financial statements.

We relied in part on data maintained by HUD in its Single Family Data Warehouse (SFDW) system. SFDW is a large and extensive collection of database tables, organized and dedicated to support the analysis, verification, and publication of single-family housing data. Specifically, we relied on this system to identify loans that were reported with default codes in the SFDMS default history table during our audit period. The default history table contains all historical default reporting records submitted by servicers in each reporting month. We also relied in part on data maintained by the sampled servicers. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable for our purposes because we verified the SFDMS data with the data provided by the servicers in our sample.

To select a sample of five servicers for this audit, we obtained the data reported for August 2020 from the SFDMS default history table. Of the 25 largest FHA servicers, we selected the 3 servicers with the largest FHA portfolios and the 2 servicers with the lowest and highest percentage of their portfolio reported as being in forbearance. We used these selection criteria to obtain substantial coverage of the overall portfolio and a range of forbearance utilization. The three largest FHA servicers were Wells Fargo, PennyMac, and LoanCare. The two servicers with the lowest and highest percentage of their portfolio reported as being in forbearance were PNC Bank and Midfirst Bank, as shown in the table below. The entire active portfolio consisted of more than 8 million loans, and these servicers represented about one-third of the FHA market. From these servicers, we requested loan data as of October 31, 2020, to compare to the data maintained in HUD's SFDMS. The results of the review of these five servicers' data cannot be projected to the rest of FHA's active portfolio.

Servicer	Active portfolio in August 2020	Market share (%)	Portfolio in forbearance (%)
Wells Fargo Bank	1,116,648	13.9	12.8
PennyMac Loan Services	670,051	8.4	14
LoanCare	516,353	6.4	12.1
Midfirst Bank	229,616	2.9	23.2
PNC Bank	75,959	0.9	4.6
Total of Reviewed Servicers	2,608,627		
Total entire active portfolio	8,011,188	-	-

We obtained a list of active loans serviced by the selected servicers that had an active default episode from SFDW for the October 2020 reporting period. Specifically, we obtained defaulted loan data from the default history table and identified the default status of each loan, the date of the oldest unpaid instalment, and the default reason codes. We related the loan data obtained from the servicers to the loan data obtained from SFDW to identify the degree to which the two data sources agreed. The results of these comparisons are shown in appendix B.

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

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls to ensure that COVID-19 forbearance data available in SFDMS were consistent with the loan information maintained by loan servicers.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Because internal control was not determined to be significant to the audit objective and we did not identify deficiencies during our audit, generally accepted government auditing standards did not require an assessment of controls. Accordingly, we do not express an opinion on the effectiveness of HUD's internal control.

Separate Communication of Minor Deficiencies

We reported minor deficiencies to the auditee in a separate management letter.²

² These minor deficiencies included loans still being reported as forbearance after the initial forbearance period expired, loans reported as both formal forbearance and foreclosure moratorium, and loans in forbearance that may have been misreported. None of these issues were significant enough to be presented in the audit report.

Appendixes

Appendix A

Auditee Comments

The Office of Single Family Housing chose not to provide any comments to include in the final report.

Appendix B

Analysis of Servicer Data and SFDMS Data

Table 1: Detailed forbearance reporting in October 2020

Servicer	Loans in forbearance per servicer records	SFDMS reporting of loans in forbearance per servicer records			
		Reported to SFDMS as forbearance	Reported to SFDMS as receiving loss mitigation attention	Not reported to SFDMS as forbearance or loss mitigation assistance, but loans were not delinquent	Percentage appropriately reported (or no reason to believe misreported) in SFDMS ^{3,4}
LoanCare	69,051	58,930	2,863	6,955	99.56%
Midfirst Bank	58,489	54,144	106	3,707	99.09%
PennyMac	77,102	71,804	265	4,778	99.67%
PNC Bank	4,408	123	3,383	751	96.57%
Wells Fargo	109,978	99,813	2,661	6,843	99.40%
Total	319,028	284,814 (89%)	9,278 (3%)	23,034 (7%)	99.4%

Explanation of default status codes comprising loss mitigation attention

Status code	Definition	Guidance for usage: use selected code to advise HUD that...
08	Trial payment plan	Borrower has been approved for a trial payment plan and is making the required trial payments.
10	Partial claim started	Borrower has been approved for a partial claim.
11	Promise to pay	Borrower advises that the loan will be brought current by making a one-time payment.
12	Repayment-informal forbearance plan	Borrower has been approved for an informal forbearance plan, which is an oral agreement to bring the loan current within 3 months or less.
15	Preforeclosure acceptance plan available	Borrower has been approved to participate in the preforeclosure sale program.
26	Refinance started	Borrower has been approved for a refinance.
28	Modification started	Borrower has been approved for a loan modification.
36	FHA-HAMP* stand-alone partial claim started	Borrower has been approved for a HAMP stand-alone partial claim after successful completion of the FHA-HAMP trial payment plan.
37	FHA-HAMP stand-alone modification started	Borrower has been approved for a HAMP stand-alone loan modification after successful completion of the FHA-HAMP trial payment plan.
39	FHA-HAMP trial payment plan	Borrower has been approved for a trial payment plan under FHA-HAMP.
41	FHA-HAMP modification- partial claim started	Borrower has been approved for a HAMP loan modification and partial claim after successful completion of the FHA-HAMP trial payment plan.
44	Deed-in-lieu started	Borrower has been approved for a deed in lieu, and processing has begun.

³ While we could not corroborate that the 9,278 loans were in loss mitigation, we also do not have evidence to contradict that classification, and it is reasonable to expect that some portion of loans in forbearance would then also be in loss mitigation.

⁴ We did not conduct any further analysis into the difference between the servicer records and SFDMS data.

53	Combination partial claim/modification started (non-FHA-HAMP)	Borrower has been approved for a combination loan modification and partial claim that is not an FHA-HAMP combination loan modification-partial claim.
AA	Complete financials received and in review	Lender has received complete financial information from the borrower, and review for placement into an appropriate loss mitigation tool has begun.
AH	Streamlined financials received and in review	Lender has received streamlined financial information from the borrower, and review for final approval for a streamlined tool has begun.
AQ	Option failure	Borrower has failed to perform under the terms of the loss mitigation tool used by the lender.

* HAMP = Housing Affordable Modification Program

Table 2: Oldest unpaid installment reporting in October 2020

Servicer	All loans reported to SFDMS in October 2020	Loans that have matched OUI*	Percentage of loans that have matched OUI
LoanCare	104,519	104,433	99.92%
Midfirst Bank	89,161	88,513	99.27%
PennyMac	128,515	128,412	99.92%
PNC Bank	10,474	10,442	99.69%
Wells Fargo	230,600	230,367	99.90%
Total	563,269	562,167	99.8%

* OUI = oldest unpaid installment

Table 3: National emergency default reason code reporting in October 2020

Servicer	Defaulted loans in forbearance per servicer records	Loans that reported the national emergency default reason code in SFDMS	Percentage reporting the national emergency default reason code in SFDMS
LoanCare	61,563	59,822	97.20%
Midfirst Bank	54,782	54,582	99.60%
PennyMac	71,371	71,141	99.70%
PNC Bank	3,591	2,125	59.20%
Wells Fargo	102,902	99,812	97.00%
Total	294,209	287,482	97.7%

Table 4: Loans in formal forbearance potentially miscoded as special forbearance in October 2020

Servicer	Defaulted loans in forbearance per servicer records (A)	Loans that reported national emergency default reason and special forbearance in SFDMS (B)	Percentage potentially miscoded defaulted loans based on prior two columns (B/A x 100)
LoanCare	61,563	3	0.01%
Midfirst Bank	54,782	9	0.02%
PennyMac	71,371	25	0.04%
PNC Bank	3,591	8	0.22%
Wells Fargo	102,902	5	0.01%
Total	294,209	50	0.02%

Appendix C

Criteria

HUD Mortgagee Letter 2020-13

The purpose of this mortgagee letter (ML) is to inform mortgagees [servicers] of an extension to the foreclosure and eviction moratoriums originally issued in Mortgagee Letter 2020-04 for borrowers with FHA-insured single-family mortgages covered under the Coronavirus Relief, and Economic Security (CARES) Act for an additional period through June 30, 2020, and to announce new Single Family Default Monitoring System (SFDMS) reporting requirements.

Servicing - SFDMS Reporting Requirements for All Endorsed Mortgages Utilizing the Forbearance for Borrowers Affected by the COVID-19 National Emergency

Mortgagees must report the default/delinquency reason codes that apply to the borrower at the end of each reporting cycle and must update the code as the borrower's circumstances change.

Default Status Code Reporting

For all endorsed mortgages utilizing the forbearance for borrowers affected by the COVID-19 national emergency, mortgagees must begin reporting immediately Status Code 06 – Formal Forbearance.

If mortgagees were previously reporting any other code for the forbearance for borrowers affected by the COVID-19 national emergency, mortgagees should stop reporting that status code immediately and begin reporting Status Code 06 – Formal Forbearance. Mortgagees must maintain the same default status date as the date the borrower was approved for the forbearance if changing status code.

If the mortgage is newly defaulted (no open default episode in SFDMS), mortgagees must report Status Code 42 – Delinquent and then Status Code 06 – Formal Forbearance.

Default Reason Code Reporting

To assist in identifying delinquencies that are a result of a national emergency declaration in which the physical property is not impacted, FHA has implemented a new delinquency and default reason (DDR) code that is available for use by mortgagees. The new DDR Code 055 – Related to National Emergency Declaration must be used to report that the delinquency is a result of impacts of the COVID-19 pandemic. This new code may be used beginning on May 1, 2020, for the April 2020 reporting cycle.

In the interim, all mortgagees that are unable to report DDR Code 055 – Related to National Emergency Declaration for the April 2020 cycle must report DDR Code 010 – Neighborhood Problem until they can begin reporting DDR code 055.

Mortgagees must fully implement reporting of DDR Code 055 – Related to National Emergency Declaration no later than the July 2020 reporting cycle. That data is due to HUD no later than August 7, 2020, which is the fifth business day of August 2020.

HUD Handbook 4000.1, FHA Single Family Housing Policy Handbook

III. SERVICING AND LOSS MITIGATION

A. Title II Insured Housing Programs Forward Mortgages

2. Default Servicing, h. Early Default Intervention

ii) SFDMS Default Reporting

(A) Definition

Single Family Default Monitoring System (SFDMS) is HUD's system for tracking Mortgagee [servicer] data on Delinquent Mortgages until a delinquency is resolved through reinstatement or termination.

(B) Standard

The Mortgagee must report in SFDMS the Delinquency/Default Status Codes that accurately reflect the stage of delinquency or Mortgagee action.

(1) Types of Mortgages to Report

Each month, the Mortgagee must report Delinquent servicing activities for all Mortgages that are 30, 60, and 90 Days or more Delinquent as of the last Day of the month.

The Mortgagee must report the statuses of three classes of Mortgages each month:

- **New Delinquencies:** The Mortgagee must report Delinquent accounts when one full installment is due and unpaid (30 Days Delinquent - Status Code 42) and must continue reporting the applicable Status Code until the delinquency is resolved.
- **Open Delinquencies:** The Mortgagee must continue to report a Status Code 42 until a servicing action has been initiated/approved and/or completed which would warrant a Status Code change.
- **Delinquencies Resolved During the Cycle Month:** The Mortgagee must report the appropriate Status Code to reflect that the delinquency has been addressed.

(2) Time Frame for Reporting

For every case for which reporting is required, the Mortgagee must submit delinquency data documenting the status as of the end of the month. The Mortgagee must submit this data by the fifth business day of the following month. Mortgagees may submit additional delinquency data throughout the month.

(a) Reporting Accuracy

A Mortgagee must submit an accurate SFDMS report. All the information is important; some is so critical that if that data is inaccurate or missing, the report on that Mortgage or even the entire monthly report is automatically rejected by SFDMS.