



OFFICE of  
**INSPECTOR GENERAL**  
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UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# Carrington Mortgage Misapplied FHA's Foreclosure Requirements

Audit Report Number: 2025-KC-1002

January 30, 2025

To: Sarah J. Edelman  
Deputy Assistant Secretary for Single Family Housing, HU

//signed//

From: Kilah S. White  
Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: Carrington Mortgage Misapplied FHA's Foreclosure Requirements, Anaheim, CA

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of Carrington Mortgage's Federal Housing Administration (FHA) foreclosures.

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, as amended, 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 Patrick Anthony, Audit Director, at (716) 646-7056.

## Highlights

### Carrington Mortgage Misapplied FHA's Foreclosure Requirements | 2025-KC-1002

#### What We Audited and Why

We conducted an audit of Carrington Mortgage's compliance with Federal Housing Administration (FHA) requirements for foreclosures that started in 2022. Pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), as extended by the Secretary, from March 18, 2020, through July 31, 2021, there was a pause on new and ongoing foreclosures for FHA single-family mortgages for homes that remained occupied. We selected Carrington because it was among the first servicers to resume initiating foreclosures after the moratorium ended with a foreclosure rate above 1 percent. Our audit objective was to determine whether Carrington complied with FHA's requirements for loss mitigation before initiating and continuing foreclosure.

#### What We Found

Carrington did not follow FHA's requirements for more than 18 percent of its foreclosures in 2022. Based on a statistically valid sample drawn from a universe of 7,998 FHA-insured loans totaling more than \$907 million, Carrington did not complete the required loss mitigation activities before initiating or continuing foreclosure for an estimated 1,451 loans. As a result, borrowers experienced hardship from the unnecessary foreclosure starts and risked losing their homes. In addition, the U.S. Department of Housing and Urban Development (HUD) was at risk of paying unnecessary claims on the improperly handled loans with an unpaid balance of \$204.8 million if the foreclosure sales had been completed. In the statistical sample, most borrowers ultimately received loss mitigation assistance and kept their homes while five sampled borrowers lost their homes in foreclosure sales.

#### What We Recommend

We recommend that HUD require Carrington to (1) remedy the 27 loans in our sample with improper foreclosure filings or take administrative actions if appropriate, (2) perform a review of loans affected by the system errors and when appropriate remedy the borrowers or HUD, (3) update its policies and procedures to comply with HUD requirements, and (4) implement improved controls to prevent manual errors.

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## Background and Objective

FHA, a part of HUD, provides mortgage insurance on loans made by FHA-approved lenders. The lenders bear less risk because FHA will pay a claim to the lender for the unpaid principal balance of a defaulted mortgage. The total FHA portfolio consisted of 7.3 million loans at the end of 2022, while there were 85,147 foreclosures started that year.


HUD's Office of Single Family Housing administers FHA's mortgage insurance programs for mortgages secured by new or existing single-family homes, condominium units, manufactured homes, and homes needing rehabilitation. FHA's single-family mortgage insurance programs protect mortgage lenders against losses from default and encourage lenders to provide mortgage financing to eligible home buyers, including first-time and low-to-moderate-income home buyers and individuals and families of color.

Carrington Mortgage is a fully integrated mortgage company with lending and servicing operations. Founded in 2007, Carrington is a subsidiary of Carrington Holding Company, LLC. Headquartered in California, Carrington services loans in all 50 States and Puerto Rico and is licensed to lend in 48 States. In 2022, Carrington had nearly 350,000 FHA loans in its servicing portfolio. Carrington commenced foreclosure on 7,998 FHA-insured loans with an unpaid principal balance of more than \$907 million in 2022.

Congress, Federal agencies, and the mortgage industry took steps to protect the housing and financial stability of borrowers during the COVID-19 pandemic through expanded forbearance options, a foreclosure moratorium, and streamlined loss mitigation options after forbearance. Forbearance allowed for reduced or suspended payments for a period of 6 to 18 months. Foreclosure moratoriums were in place from March 18, 2020, through July 31, 2021, except with respect to vacant or abandoned properties. HUD loss mitigation options are designed to assist borrowers in default or imminent default in retaining their homes and reduce losses to the FHA insurance fund that result from mortgage foreclosures. Servicers use several loss mitigation options that lead to home retention, including a partial claim or a loan modification. To address the high volume of delinquent borrowers exiting forbearance, HUD implemented streamlined options to expedite reviews for mortgage assistance. The COVID-19 recovery home retention program streamlined HUD's previous options for struggling homeowners, reduced required documentation, and allowed mortgage servicers to provide greater payment reduction for eligible homeowners.

HUD Handbook 4000.1 contains requirements for servicing FHA loans. It requires servicers to comply with all laws, rules, and requirements applicable to mortgage servicing, including full compliance with the applicable requirements under the purview of the Consumer Financial Protection Bureau, including the Real Estate Settlement Procedure Act and the Truth in Lending Act, and FHA requirements that are more stringent or restrictive than those provided for in applicable law. Before starting foreclosure, the servicer must review its servicing record to be certain that servicing has been performed in accordance with HUD guidance.

When foreclosure is appropriate, servicers must initiate and complete foreclosure in a timely manner. A servicer may initiate foreclosure after at least three consecutive full monthly mortgage payments are due but unpaid and when a borrower is rejected for loss mitigation, does not perform under a loss mitigation agreement, or does not respond to the servicer regarding loss mitigation. Foreclosure begins with the filing of the first legal action to initiate foreclosure. HUD requires servicers to file the first legal action



within 6 months of the delinquency start date but allows extensions to the deadlines to complete loss mitigation requests. A borrower may also request loss mitigation assistance after the foreclosure has started. The HUD handbook contains requirements for the servicer to provide loss mitigation before foreclosure starts as well as after foreclosure has started. If the loan remains delinquent, the ultimate outcome is a foreclosure sale. (See appendix B for more information on HUD's requirements.)

Our audit objective was to determine whether Carrington complied with FHA's requirements for providing loss mitigation before initiating and continuing foreclosure.

## Results of Audit

### Carrington Mortgage Misapplied FHA Requirements for More Than 18 Percent of Its Foreclosures Started in 2022

Carrington did not complete the required loss mitigation before initiating or continuing foreclosure for more than 18 percent of its FHA loans with foreclosure filings in 2022. Carrington misinterpreted FHA's requirements and had errors in its processes. As a result, borrowers experienced hardships from the unnecessary foreclosure starts and risked losing their homes to foreclosure. In addition, HUD was at risk of paying unnecessary claims on an estimated 1,451 loans with unpaid balances of approximately \$204.8 million if the foreclosure sales had occurred.

#### FHA Foreclosure Requirements Not Met

From a universe of 7,998 FHA-insured forward loans totaling more than \$907 million with foreclosure started in 2022, we selected a statistically valid sample of 88 loans totaling \$14.7 million. Carrington did not comply with FHA requirements for providing loss mitigation assistance before initiating or continuing foreclosure for 27 of the sampled loans, which projected to 18.15 percent of the universe, or 1,451 loans. (See appendix C.)

#### Not Reviewing for Streamlined Options

Carrington initiated the foreclosure process and required borrowers impacted by the COVID-19 pandemic to take unnecessary steps to access loss mitigation. Borrowers requested loss mitigation, but Carrington required them to submit a written request for mortgage assistance when it should have evaluated them for streamlined options. HUD Handbook 4000.1 states that borrowers impacted, directly or indirectly, by COVID-19 should be provided with streamlined options to bring their mortgage current. (See appendix B.) In one case, a borrower called multiple times after exiting a COVID-19 forbearance and was told to fill out a mortgage assistance application and provide bank statements and pay stubs to be reviewed. The borrower told Carrington he did not have internet access and asked for the application to be mailed. However, the borrower did not receive the application, and foreclosure was initiated. In another case, a borrower stated that he had contracted COVID-19 and nearly died but had returned to work and wanted to be reviewed for loss mitigation. He was told that he had to be on a COVID-19 forbearance to be reviewed for COVID loss mitigation options. The borrower was told to follow up in a week to see if he was approved for a COVID-19 forbearance. But the next day, Carrington filed the first legal action to initiate foreclosure. In both cases, Carrington missed the opportunity to help the borrowers by not reviewing them for the COVID-19 streamlined options when requested. In the first case, the borrower lost his home to foreclosure.

#### Not Reviewing Borrowers' Requests Before Initiating Foreclosure

Carrington initiated the foreclosure process before it reviewed borrowers' requests for loss mitigation. A servicer may initiate foreclosure after it has completed its review of the borrower's loss mitigation request, determined that the borrower does not qualify for a loss mitigation option, properly notified the borrower of this decision, and rejected any available appeal by the borrower. HUD considers foreclosure to be initiated when the first legal action to initiate foreclosure is filed. The HUD handbook requires servicers to determine that the borrower is not eligible for any loss mitigation option before initiating foreclosure, but Carrington started the foreclosure before it made such determination on the request. In

one case, Carrington performed the required advance loan modification (ALM) review after the borrower exited COVID-19 forbearance, but he was not eligible for it. At the same time, the borrower submitted a loss mitigation application; however, Carrington did not review the application because the loan was being considered in loss mitigation review. It ended up filing the first legal action without reviewing the borrower for loss mitigation assistance or notifying her of the outcome of her application. In another case, Carrington notified the borrower that his request for loss mitigation assistance was incomplete. However, Carrington filed first legal action to initiate foreclosure the day after sending the letter and before determining the borrower’s eligibility for loss mitigation.

### Initiating Foreclosures While Awaiting Documents

Carrington initiated the foreclosure process while documents necessary to execute the loss mitigation option were outstanding. The HUD handbook requires servicers to complete their review of borrowers’ loss mitigation requests before starting foreclosure. However, Carrington initiated foreclosure while borrowers were waiting for Carrington to send them new documents or Carrington was waiting for borrowers to submit additional information. In one example, Carrington approved a borrower for an ALM, but the borrower’s deceased wife was required to sign the document. The borrower provided a death certificate to have her name removed, but Carrington did not provide updated documents to the borrower to finalize. The loss mitigation was closed in error, the borrower was not notified, and ultimately the borrower lost his home in a foreclosure sale. In another example, the borrower was approved for a streamlined modification and made several payments. However, due to notary issues, the final loss mitigation documents expired, and Carrington filed the first legal action to initiate foreclosure. The borrower continued to be engaged with Carrington, but Carrington failed to either allow her to resubmit corrected documents or reevaluate her for streamlined options without submitting a full loss mitigation application. In both cases, Carrington did not comply with HUD’s requirement to complete loss mitigation before initiating foreclosure.

### Not Providing Borrowers With Accurate Information or Assistance

Carrington gave other borrowers inaccurate information or did not provide them with appropriate assistance.

Issue	Illustration
Inaccurate information about assistance within 37 days of foreclosure	Carrington provided inaccurate information about loss mitigation requests received after the foreclosure was initiated. HUD requires servicers to use their best efforts to complete a thorough and accurate review of the borrower’s request for loss mitigation by the foreclosure sale date when borrowers submitted requests in fewer than 37 days before the foreclosure sale date. However, one borrower was informed about a foreclosure sale on his property and told Carrington that he wanted to keep his property. The Carrington representative misinformed him that he could not apply for loss mitigation since it was fewer than 37 days before the foreclosure sale date. The representative told the borrower that the only way to save his home was to pay in full the reinstatement amounts due. This borrower ended up losing his home in a foreclosure sale.



<p>Appropriate assistance not provided within 37 days of foreclosure</p>	<p>Carrington did not provide appropriate assistance to a borrower who requested a reinstatement quote during foreclosure. The Carrington representative told the borrower to ignore a letter he received from an attorney and not to follow the letter’s payment instructions because it could be fraud, when, in fact, the letter was from Carrington’s foreclosure attorney. HUD requires servicers to ensure that strong communication lines are established between the loss mitigation and foreclosure departments and the sharing of documentation and information relating to a borrower’s delinquency. In addition, the representative told the borrower to await the reinstatement quote, but Carrington staff failed to order the quote until 11 days later and did not mail it to the borrower for another 11 days. Carrington mailed the quote on Friday and required receipt of funds by Sunday, and the sale was scheduled for Tuesday. HUD requires the servicer to allow reinstatement if the borrower offers a lump sum payment to bring the account current. The borrower did not receive the reinstatement quote until it was emailed to him on the day of the sale, 26 days after he requested it and not in time to reinstate before the sale held that day. The borrower ended up losing his home in a foreclosure sale to a third party for \$294,510.</p>
<p>Inaccurate information about foreclosure’s being on hold</p>	<p>Carrington misinformed a borrower about the status of her Homeowner’s Assistance Fund (HAF) grant and the status of her loan. Carrington received the guarantee of funds for a State HAF grant for the borrower, and the borrower continued to be engaged with Carrington, which advised her that the State process could take time, Carrington was working with the State, and there was nothing she needed to do except call every few weeks. However, Carrington filed the first legal action to initiate foreclosure anyway. As a result, the borrower incurred foreclosure fees before eventually exiting foreclosure and receiving HAF assistance to reinstate her account.</p>
<p>Inaccurate information about available options</p>	<p>Carrington misinformed a borrower about the options available to him since he was impacted by COVID-19 and had lost his income. He was incorrectly told that he needed to fill out an application for mortgage assistance and provide 30 days’ worth of income documents and bank statements, when nothing was required for the streamlined options. He was also incorrectly told that he could request a 90-day forbearance, during which he would need to make payments to catch up on his mortgage, instead of being offered a COVID-19 forbearance. Carrington did not offer a COVID-19 forbearance to the borrower until 4 months later, after it had initiated foreclosure. The borrower ended up getting a COVID-19 loss mitigation partial claim in early 2023, reinstating his loan.</p>
<p>Appropriate COVID-19 assistance not provided</p>	<p>A borrower was not provided with the appropriate assistance when she called in asking to extend her COVID-19 forbearance. The Carrington representative incorrectly told the borrower that the loan was being reviewed for a loan modification and advised her to call back and check on progress; however, the request for forbearance extension was not honored, and the forbearance closed. During a followup call from the borrower, she was shocked to learn that she was not being reviewed for a loan modification and her forbearance was closed. Even though the borrower had indicated that she was still impacted by COVID-19, she was not given the option to extend the forbearance or reviewed for streamlined options but instead was told to fill out a loss mitigation application. When she did not submit a loss mitigation application, Carrington initiated foreclosure. The borrower ended up reinstating the loan at the end of 2022, making the account current.</p>

# Carrington Misinterpreted HUD's Requirements and Had System and Manual Errors

## Policy and Procedure Issues

Carrington's policies and procedures did not provide for borrowers to be properly considered for streamlined loss mitigation options before initiating or continuing foreclosure. Carrington's policy was to instruct borrowers to submit a request for mortgage assistance online or through the mail. To apply for a COVID-19 loss mitigation option, borrowers had to submit a complete application with income, expense, and hardship documentation, including proof of layoff, furlough, reduction in income, illness, or death related to COVID-19. Carrington also required borrowers to be on an active forbearance to receive streamlined options. Carrington believed these practices were compliant; however, they did not align with the HUD handbook requirements for streamlined options. Further, Carrington would not offer streamlined options if COVID-impacted borrowers had an additional or new reason for default. Lastly, Carrington would not review borrowers a second time for a streamlined option if it had previously offered one that had not been completed without the borrowers' submitting a new application.

Carrington's policies and procedures only stopped foreclosure when applications were deemed complete, which meant that the first legal action to initiate foreclosure moved forward while Carrington awaited additional information needed to evaluate and approve the borrower for loss mitigation. However, this procedure was inconsistent with HUD's requirements for when to initiate foreclosure, which did not specify that the loss mitigation application must be complete. Carrington considered that the foreclosure process started upon referral to the foreclosure attorney, and at that point, it required a complete loss mitigation application to stop the foreclosure, which did not align with the HUD handbook requirement.

Carrington did not have a policy to notify borrowers that they were not eligible for any loss mitigation option before initiating foreclosure until the cancellation notice was developed in June 2022. Because of this, some borrowers were under the impression that Carrington was still reviewing them for loss mitigation or processing the notarized documents they had returned and were unaware that Carrington no longer had a loss mitigation case open for them. Carrington did not fully follow HUD handbook requirements on when to initiate foreclosure, which stated that borrowers must be properly notified of a servicer's decisions if they do not qualify for loss mitigation options.

## System Issues and Employee Errors

Carrington improperly initiated foreclosure before evaluating borrowers' loss mitigation applications due to system errors. Carrington did not properly review loans for loss mitigation if an application was received while the loan was being reviewed for an ALM. According to Carrington's executives, the borrower's request did not fall into the appropriate queue in the system to continue the loss mitigation review. As a result, Carrington did not review that request and did not send the appropriate loss mitigation status notices to the borrower. Carrington's system errors caused foreclosure to begin rather than providing the borrower with proper loss mitigation. Carrington affirmed that it had updated its processes and reporting to ensure that loss mitigation applications would be acknowledged upon receipt, regardless of the ALM review.

Carrington did not have adequate controls to prevent employee errors. Specific errors included

- failure to mail a mortgage assistance application or order a reinstatement quote when requested,
- failure to request or erroneous removal of a forbearance or foreclosure hold,

- failure to open or erroneous closure of loss mitigation, and
- misinforming borrowers about the foreclosure process, attorney letters, and assistance available within 37 days of the foreclosure sale date.

Carrington's policies and procedures stated that throughout the foreclosure process, a foreclosure specialist assigned to the loan would conduct proper due diligence to ensure compliance by collaborating with the assigned attorney to manage foreclosure activities and meet all requirements. However, Carrington did not have adequate controls to prevent its employees from making these types of errors.

## **Borrowers Faced Financial Loss and Hardships, and the FHA Fund Could Be at Risk**

Borrowers for an estimated 1,451 loans with a total unpaid balance of \$204.8 million experienced hardships from the unnecessary foreclosure starts, including foreclosure-related fees, stress, and other impacts from public filings. In most of the cases in the statistical sample, the borrowers ultimately received loss mitigation and kept their homes, so their financial impact was limited to the foreclosure fees they were charged, which could have been avoided. However, in five cases, borrowers in the sample lost their homes to foreclosure without receiving proper assistance. Two of the five homes were sold to third parties in foreclosure sales, which satisfied the mortgage debts. HUD paid claims totaling \$164,327 for the other three deficient loans in our sample.

## **Conclusion**

Carrington did not properly design its policies and procedures to fully meet HUD's requirements. As a result, some borrowers faced additional financial loss and hardships, and the FHA insurance fund could have been at risk of loss for loans that started foreclosure without properly receiving loss mitigation. By implementing our recommendations, Carrington will better service its delinquent FHA-insured loans facing foreclosure by minimizing costs to borrowers while helping them stay in their homes.

## **Recommendations**

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 1A. Require Carrington to remedy HUD and the 27 borrowers in our sample with improper foreclosure filings and take administrative actions if appropriate.
- 1B. Require Carrington to perform a review of loans affected by the system errors and when appropriate, remedy the borrowers or HUD.
- 1C. Require Carrington to update its policies and procedures to comply with HUD requirements by reviewing eligible borrowers for streamlined options without unnecessary documents, notifying borrowers if they are ineligible for any loss mitigation options, and using best efforts to review borrowers for loss mitigation within 37 days of the foreclosure sale date.
- 1D. Require Carrington to implement improved controls to prevent manual errors by performing additional review of all foreclosure actions and performing timely review of all documentation provided by the borrowers and third parties.

## Scope and Methodology

We performed our audit work from April 2023 to June 2024. We conducted our fieldwork offsite and at Carrington's office located in Anaheim, CA. Our audit period covered January through December 2022.


To accomplish our objective, we

- reviewed relevant laws, regulations, and HUD's guidance;
- reviewed Carrington's policies and procedures;
- interviewed HUD's staff to gain an understanding of the program;
- followed up with Carrington's staff to gain an understanding of relevant controls to ensure compliance with HUD's requirements;
- selected a statistical sample of FHA-insured loans and reviewed records provided by Carrington for the sample to determine compliance with HUD's foreclosure requirements; and
- followed up with Carrington on issues found during the audit to determine the reasons for noncompliance.

We relied in part on data contained in HUD's Single Family Data Warehouse (SFDW) system to achieve our audit objective. 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. One of the data sources is the Single Family Default Monitoring System (SFDMS), which contains loan-level default data reported by the servicers. Specifically, we relied on the system to identify the universe of loans reported as having had foreclosure started in 2022. HUD's Neighborhood Watch system contains data on delinquent FHA loans. We used Neighborhood Watch reports to obtain information on the status of sampled loans and the loan delinquency activities reported by the servicer. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing, which included comparing information from SFDW and Neighborhood Watch to Carrington's records, and found the data to be adequate for our purposes.

Using data from Neighborhood Watch, we identified 26 servicers with portfolios greater than 50,000 loans as of December 31, 2022. These servicers oversaw 6.45 million properties, or nearly 90 percent of the FHA servicing universe. On average, these servicers reported about ½ of 1 percent of their portfolios in foreclosure. We selected Carrington because it was among the first servicers to resume foreclosures after the moratorium ended with a foreclosure rate above 1 percent.

Using data from SFDW, we identified an audit universe of 7,998 FHA-insured forward loans serviced by Carrington totaling more than \$907 million as of December 31, 2022. These loans were reported in SFDW with a status code that means first legal action to initiate foreclosure in 2022. To project the results of our review to the audit universe, we selected a statistical sample of 88 loans totaling \$14.7 million. (See appendix C.) For each loan in the sample, we requested documentation from Carrington, including foreclosure chronology, tracking and checklists, loan payment and fee histories, call recordings, communications with HUD, property inspection reports, escrow analysis, servicing notes and letters logs, notifications sent to the borrower, loss mitigation analysis, and other relevant documents. We evaluated the information provided for the 88 sample loans to determine whether Carrington complied with FHA's requirements for providing loss mitigation before initiating and continuing foreclosure.



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.

# Appendixes

## Appendix A – Auditee Comments and OIG’s Evaluation

### Ref to OIG Evaluation – Auditee Comments



October 18, 2024

**VIA ELECTRONIC MAIL ONLY**  
[panthony@hudoig.gov](mailto:panthony@hudoig.gov)

Patrick Anthony  
Audit Director  
U.S. Department of Housing and Urban Development  
Office of the Inspector General  
451 7th Street SW  
Washington, DC 20410

**Re: Carrington Mortgage Services, LLC  
HUD OIG Draft Audit Report**

Dear Mr. Anthony:

Carrington Mortgage Services, LLC (“Carrington” or the “Company”) is in receipt of the Draft Audit Report (“Report”), received on September 28, 2024, from the U.S. Department of Housing and Urban Development (“HUD” or “Department”) Office of Inspector General (“OIG”). The Report is based on a review of 88 Federal Housing Administration-insured (“FHA”) mortgages loans with foreclosures started in 2022. OIG’s audit work was conducted between April 2023 and June of 2024.

The Report states that OIG conducted its audit to determine whether Carrington complied with FHA requirements for foreclosures that started in 2022. The Report alleges that Carrington did not complete required loss mitigation activities before initiating or continuing foreclosure in certain instances. Based on this allegation, the Report recommends that HUD require Carrington to: (1) remedy the 27 loans in the sample with improper foreclosure filings or take administrative actions if appropriate; (2) perform a review of loans affected by certain system errors and when appropriate remedy the borrowers or HUD; (3) update its policies and procedures to comply with HUD requirements; and (4) implement improved controls to prevent manual errors.

Carrington takes its obligations to borrowers and to the FHA seriously. Carrington strives to comply with applicable HUD regulations, rules, and requirements and is committed to assisting borrowers. Loss mitigation and foreclosure have long involved complex, fact-specific situations. The evolving and difficult circumstances of the COVID-19 pandemic and its aftermath amplified the significant challenges servicers face when working with delinquent borrowers. Nonetheless, Carrington worked hard to adapt to rapidly-changing circumstances and FHA guidelines during a global pandemic, while prioritizing the best interests of borrowers and keeping as many borrowers in their homes as possible.

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## Ref to OIG Evaluation – Auditee Comments

### Comment 1 >

The OIG has provided Carrington with an opportunity to submit formal comments for inclusion in the final report. This response summarizes Carrington’s relevant policies, procedures and controls and addresses certain individual findings in the Report. We appreciate this opportunity to comment on the Report’s findings and recommendations. That said, we understand that final audit reports routinely include auditors’ comments about the audited mortgage servicer’s written response, but that the company is not provided an opportunity to respond to these additional comments. Often, these comments include substantive allegations or statements that were not a part of the Report provided to the company. To the extent that the OIG makes such additional substantive comments in this instance, we respectfully request an opportunity to respond to these additional statements to ensure that a full picture of the audited issues is presented in the final report.

### Comment 2 >

As an initial matter, Carrington respectfully takes exception to the Report’s allegation that Carrington did not follow FHA’s requirements for 18.15 percent of its FHA-insured loans with foreclosure filings in 2022. To arrive at this percentage, the Report states that the OIG sampled 88 loans referred to foreclosure in 2022, then projected its findings regarding only 27 loans<sup>1</sup> to the entire universe of 7,998 FHA-insured loans referred to foreclosure in 2022. The projection of the Report’s findings in this way is inappropriate for several reasons. Importantly, default servicing involves highly fact-specific situations with complex facts and regulations at play for each instance. Further, during the calendar year 2022, relevant FHA and Consumer Financial Protection Bureau (“CFPB”) regulations and guidance were revised and updated numerous times to address the continuing effects of COVID-19 pandemic and related forbearance and loss mitigation programs that were developed to assist affected borrowers. Whether a specific loan should have been referred to foreclosure requires a detailed loan-by-loan review because the fact-specific and timing-specific circumstances will be different in each loan file. As a result, the Company respectfully submits that it is highly misleading to state that Carrington did not follow FHA’s requirements for more than 18 percent of its foreclosures in 2022 based on such a statistical projection.

### Comment 3 >

Moreover, as demonstrated in the below discussion of certain of the 27 loans in which the Report identified exceptions, and as acknowledged in the Report, in nearly all loans reviewed by the OIG, Carrington worked extensively with borrowers (who often were dealing with substantial delinquencies in unique circumstances) to provide loss mitigation assistance and ultimately found a way to provide relief to borrowers, even when foreclosure proceedings had already been commenced. The corresponding loan files reflect that Carrington conducted extensive outreach, including through letters and phone calls, and attempted to finalize loss mitigation options for each borrower over the course of several months or years. For the overwhelming majority of borrowers referred to foreclosure in 2022, Carrington provided loss mitigation assistance and helped them stay in their homes, which also prevented HUD from paying FHA insurance claims unnecessarily. Further, Carrington disagrees that all 27 loans identified had exceptions under applicable federal law, regulations, and guidance. Carrington also disagrees with the Report’s mischaracterization that “in five cases, borrowers in the sample lost their homes to foreclosure without receiving proper assistance.” In all five cases, Carrington worked extensively with the borrowers to try to achieve a loss mitigation option. Further, with respect to Sample No. 13, the Report did not allege that any exceptions occurred in connection with the loss mitigation or foreclosure processes.

<sup>1</sup> We note that the loans discussed in the Report represent less than half of the population of the 27 loans that the Report asserts involved errors. As noted below, Carrington disagrees with the Report’s findings regarding many of those loans and objects to use of these loans to support a projection of non-compliance across a larger population of loans.

## Ref to OIG Evaluation – Auditee Comments

In summary and as detailed below, Carrington strived to adhere to all applicable legal requirements in the face of challenging circumstances and at a time when loss mitigation and foreclosure requirements were rapidly changing. Carrington respectfully requests that the OIG consider the remedial actions Carrington has already taken, the fact that the vast majority of sampled loans resulted in relief for the borrower, and the uniquely complex and challenging circumstances surrounding foreclosures that occurred in 2022 (which are unlikely to be repeated). In addition, Carrington respectfully requests that the OIG reconsider its findings with respect to the sampled loans, for the reasons explained in more detail below. Moreover, Carrington would appreciate the opportunity to discuss any outstanding questions or concerns the OIG may have regarding this response and enclosed documentation prior to closing this matter. Below, with the enclosed documents, we respond to the specific findings in the Report in more detail.

### **I. BACKGROUND AND THE COVID-19 PANDEMIC**

Carrington is a leading nationwide mortgage servicer committed to servicing borrowers with FHA loans who were impacted by the COVID-19 pandemic or another hardship in compliance with applicable law and FHA guidelines. Carrington's FHA portfolio consists of approximately 400,000 loans and its current foreclosure rate for FHA-insured mortgage loans is less than 0.6%, according to Neighborhood Watch. Government-insured or -guaranteed loans make up 80% of Carrington's total mortgage portfolio. FHA loans make up over 50% of Carrington's portfolio. Carrington maintains strong relationships with each government agency that insures/guarantees the residential mortgages it services. Throughout our existence, we have endeavored to provide dependable and professional service and have repeatedly demonstrated our commitment to borrowers and strong commitment to the FHA program. Specifically related to delinquent loans and loss mitigation practices, Carrington's goal is, and has always been, to act in the best interests of our borrowers within the parameters of FHA's loss mitigation programs and the borrowers' individual financial conditions.

Carrington's strong commitment to borrowers and to compliance is reflected in its performance record. Carrington is rated as a Tier 1 FHA servicer, with a servicing performance ranking of 95.53% in 2023. This metric includes an assessment of Carrington's performance with respect to modifications, foreclosure prevention, and loss mitigation, among other metrics. Carrington's score in each of the aforementioned areas was above 90% in 2023. Carrington is also a Top 10 Ginnie Mae servicer and a Top 4 United States Department of Agriculture ("USDA") servicer. Notably, Carrington also had no material findings in its recent CFPB, USDA, and Department of Veterans Affairs ("VA") examinations.

After Congress passed the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in 2020, Carrington worked tirelessly to implement the provisions of the CARES Act and the ensuing federal guidance from FHA and other regulators, especially the foreclosure moratorium and forbearance provisions, which were drafted and passed quickly and with minimal consideration of any implementation challenges mortgage servicers may have faced. Carrington not only implemented this law and the corresponding guidance from regulators within an extremely short period of time, but at the same time, moved its workforce—a large majority of which worked in Carrington's office—to working from home. In addition to the rapidly changing regulatory environment, Carrington and its personnel had to navigate the following significant challenges, among others: personnel having to adjust to working from home after having spent most of their careers working from an office; personnel having to live and work with other family members in confined spaces, as well as having to care for children who were not in school; personnel who were concerned with the health and well-being of their loved ones; and personnel who were concerned whether they would have a job the next month given the uncertain times.



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During this period, exhausted associates often worked 15-hour days (and sometimes longer), as they attempted to implement new legal and operational requirements and assist an unprecedented number of borrowers seeking relief. Carrington employees worked around the clock to implement the CARES Act and changes to processes each time HUD (and other agencies) issued entirely new loss mitigation programs and guidance that required immediate implementation. At times, the new, rapidly-changing regulations and guidance conflicted with existing laws and regulations, including Regulation V and Regulation X, making implementation even more challenging. For example, loss mitigation options developed at the beginning of the pandemic, which were intended to be offered without a complete application from the borrower, conflicted with the anti-evasion clause of Regulation X. New regulatory guidance was also often unclear or a work-in-progress, as agencies sought to provide much-needed solutions as quickly as possible. Updates to laws, regulations, and regulatory guidance were often reactive and piecemeal in the face of the constantly evolving and unprecedented challenges of the COVID-19 pandemic, which made implementation difficult.

Evolving guidance forced servicers to continuously adjust their practices, sometimes implementing major changes only to see those changes reversed or modified further a short time later. Such constant adjustments not only created operational challenges but also increased the risk of errors which were sometimes unavoidable. Some errors are to be expected in such an environment and should not warrant penalties or other enforcement action against servicers, like Carrington, who acted reasonably and in good faith to implement the provisions of the CARES Act and the subsequent rapidly changing regulatory guidance being issued by government agencies. Even in the rare instances when errors did occur, Carrington was almost always able to either correct the error or otherwise assist the borrower and keep them in their home.

On top of the legal and regulatory challenges Carrington faced, consumers were left confused by the forbearance protections provided—with many consumers erroneously believing that the forbore payments would be forgiven, like Paycheck Protection Program loans, as evidenced by the large number of consumers who requested forbearance but then requested to be taken off forbearance so they could take advantage of the low interest rates. Despite the substantial difficulties in implementing nearly constant changes with limited support and guidance, Carrington's directive from the top down was "put the consumer first."

Carrington made extraordinary efforts to assist consumers during the COVID-19 pandemic and in its aftermath, as forbearance periods and foreclosure moratoria ended. In the early days of the pandemic, Carrington created a COVID-19 banner and landing page on the Carrington website. This page was monitored and updated daily/weekly in response to changes to law or guidance. Carrington's COVID-19 page included detailed information that Carrington continued to enhance and update throughout the pandemic. Carrington also implemented several system and operational capabilities to most efficiently assist borrowers. For example, Carrington implemented a COVID-19 Forbearance Portal on the Carrington website that allowed consumers to request forbearance without having to call Customer Service and wait for assistance. Carrington spent significant resources to enhance the portal over time, and it included automations allowing for consumers to manage their forbearance and post-forbearance workouts online. Carrington also enhanced its Interactive Voice Response phone system to allow consumers to request a forbearance via a preset menu, without having to wait for a live call with a Carrington associate. As the pandemic-related foreclosure moratoria came to an end, Carrington went above and beyond agency requirements to reach out to borrowers in an attempt to engage in the loss mitigation process. As an example, in late 2021, the Company sent a letter to thousands of delinquent borrowers whose loans were in foreclosure moratoria that were coming to an end to inform borrowers who wanted to explore alternatives to foreclosure of the potential loss mitigation

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options, including the Homeowner Assistance Fund (“HAF”), housing counseling services and outreach channels available to such borrowers.

Carrington also did an exemplary job implementing the HAF program, which was instrumental for helping consumers stay in their homes. After having built strong relationships with the 18 states that participated in the Hardest Hit Fund (“HHF”) program, a program introduced in 2010 by the Obama Administration, program representatives in Arkansas, Ohio, Louisiana, and Mississippi approached Carrington to assist in launching the HAF pilot program in November and December of 2021. To better assist our HAF partners, as well as consumers, Carrington created a dedicated HAF Department. Centralizing all HAF processes and guidelines into one area was pivotal to Carrington’s success, especially since the states, U.S. territories, and Native American nations had different processes for the HAF program. The HAF Department implemented a tracking system to track every HAF file as to status, as well as the participating HAF programs for each state, U.S. territory, and Native American nation. By doing so, Carrington minimized delay and error. Carrington also created a HAF banner on its website that provided borrowers with a direct link to each state HAF agency website, as well as information for other agencies providing support (e.g., CFPB, HUD, etc.).

Carrington’s efforts were incredibly successful and helped thousands of borrowers. During the COVID-19 pandemic and its aftermath, Carrington granted forbearances to 158,764 borrowers. Of those borrowers who received a forbearance, 98% were able to remain current, reinstated missed payments, received a loss mitigation option, paid off their loan, or were transferred to another servicer. Specifically, of the borrowers who received a forbearance, 77,227 remained current during the period of forbearance or reinstated the missed payments after the forbearance concluded. Carrington was able to assist 58,416 borrowers who could not immediately catch up on the forborne payments with a form of active loss mitigation, including partial claims, loan modifications, and deferrals. Another 19,336 borrowers paid off their loans or were transferred to another servicer. The remaining 3,785 borrowers—a mere 2% of Carrington’s forbearance population—received loss mitigation assistance after the forbearance concluded but did not successfully enter into a loss mitigation option.<sup>2</sup> With respect to the HAF program, Carrington assisted over 16,700 customers with assistance totaling \$ 295 million by the end of September 2024, representing over 3% of the more than 549,000 families that received assistance through the HAF program and over 4% of funds disbursed through the program.

Mortgage servicers nationwide, including Carrington, helped more than 8 million borrowers stay in their homes between the beginning of the COVID-19 pandemic and today. To do so, Carrington and other mortgage servicers made extraordinary efforts to implement new and rapidly changing loss mitigation programs developed by HUD and other government agencies within incredibly short periods of time. At the same time, mortgage servicers, including Carrington, were assisting record numbers of borrowers as they sought much needed relief due to the economic and other impacts of the COVID-19 pandemic. These efforts continued well after foreclosure moratoria

<sup>2</sup> Available industry data suggests that the percentage of borrowers exiting forbearance without a resolution at Carrington was significantly lower than that in the broader industry. For example, the CFPB’s May 2022 COVID-19 servicing report indicated that 15.2% of borrowers exiting forbearance between May and December 2021 were delinquent and did not have a loss mitigation option in place when exiting forbearance. The CFPB report is available at: [https://files.consumerfinance.gov/f/documents/cfpb\\_mortgage-servicing-covid-19-pandemic-response-metrics-report-2022-05.pdf](https://files.consumerfinance.gov/f/documents/cfpb_mortgage-servicing-covid-19-pandemic-response-metrics-report-2022-05.pdf). Similarly, the Federal Reserve Bank of Philadelphia found that, as of July 7, 2022, seven percent of borrowers exiting forbearance were delinquent and either in loss mitigation but not paying or were not in loss mitigation at all. That report is available at: <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/22-07-tracking-resolutions-of-mortgage-forbearances-and-delinquencies.pdf>.

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ended and the servicing industry, government agencies, and consumers all had to navigate the end of COVID-19 forbearances and rely on new loss mitigation measures when necessary. Throughout this process, Carrington put its customers first and used its best efforts to use HUD's loss mitigation options to assist many thousands of borrowers with FHA-insured mortgage loans.

### **II. CARRINGTON'S CONTROLS**

Carrington takes all FHA requirements seriously and has implemented detailed policies and procedures and extensive controls to ensure compliance with applicable legal and regulatory requirements, especially requirements related to loss mitigation and foreclosure processes. Carrington's policies and procedures provide for compliance with FHA servicing and loss mitigation requirements and other legal requirements, including under Regulation X, which implements the Real Estate Settlement Procedures Act ("RESPA").

With respect to the loss mitigation process, Carrington's policies and procedures included a requirement that Carrington not commence the foreclosure process, including filing the first legal action to commence foreclosure, if a borrower has submitted a complete or facially complete loss mitigation application. Carrington's loss mitigation policy further explained that when it received a facially complete application, Carrington would seek corrected documents or additional information to complete the application and give the borrower a reasonable amount of time to provide the required additional materials. Carrington's policy stated that it would not take first legal action or refer the borrower to foreclosure during the time the request for additional documentation was pending.

FHA requirements and Regulation X require a servicer to file the first legal action to commence foreclosure if the borrower does not qualify for streamline loss mitigation options or a complete loss mitigation application has not been submitted. Carrington does not refer a loan to its foreclosure counsel if a borrower enters a loss mitigation agreement, the loan is eligible for streamline review, or Carrington has received a complete loss mitigation application. If a loan has been referred to foreclosure counsel before the borrower engaged in loss mitigation, the foreclosure will be placed on hold upon receipt of a complete loss mitigation application or a determination that the borrower qualifies for a streamline review. Carrington works closely with its foreclosure counsel to ensure Carrington takes all appropriate actions to place foreclosures on hold or postpone foreclosure sales in compliance with FHA and CFPB requirements.

During the COVID-19 pandemic and its aftermath, Carrington continuously updated its policies and procedures to reflect updated FHA, CFPB, and other legal requirements. The loss mitigation team reviewed updated requirements with the servicing management team and the legal team. Regular meetings were held with servicing leaders to advise them of updates and Carrington carried out plans to ensure all relevant business areas were informed of updates. In addition, Carrington had mandatory training during and after COVID-19 to educate employees regarding the requirements. All servicing associates were and still are required to complete these trainings.

Servicing associates follow a mandatory training schedule that covers compliance courses. New hires are also required to complete classroom training led by the training team, and then side-by-side training with other associates. Carrington has policies and procedures and monitoring processes in place to manage revisions and edits to scripts used by Carrington associates who communicate directly with consumers. All scripts used by Carrington associates who communicate directly with consumers are reviewed and approved by the Servicing Compliance Department ("SCD") and Legal and Compliance Departments.

 **Comment 4 >**

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 Comment 5 >

In addition, since 2022, Carrington has further enhanced its policies, procedures, and training. For instance, Carrington updated its processes and reporting to ensure that loss mitigation applications are acknowledged upon receipt, regardless of the pre-waterfall advance loan modification (“ALM”) review. This procedure, which the Company continues to update, also includes additional processes to ensure Carrington evaluates and provides the ALM option to qualified borrowers.

With respect to training, in January 2023, Carrington’s Legal and Compliance Department created a new training module for employees in customer service, collections, and loss mitigation, covering forbearances, forbearance repayment options, and laws and investor guidelines applicable to hardships related to the COVID-19 pandemic. All employees timely completed the training module, which has also been added to the new employee onboarding training. Employees are required to take this training on an annual basis, for as long as laws related to COVID-19 hardships remain effective. This training was recently updated in February 2024 to reflect the more limited impact of COVID-19 today and changes to requirements.

In December 2022, Carrington also completed a review of its policies and procedures related to forbearance and forbearance repayment options and concluded that its policies and procedures were consistent with the CARES Act and with other current laws, regulations, and guidance, including from investors and insurers. Carrington has also developed a new Scripting Development Policy to formalize existing processes for review and approval by the relevant departments. Carrington has also established formal Call Quality Guidelines tailored to the specific business units (e.g., Collections and Customer Service), which are reviewed by the Legal and Compliance Department to ensure compliance with regulatory, client, investor, and internal policies and procedures.

Carrington uses three lines of defense to perform routine compliance monitoring and testing to identify potential risks and failures. The First Line of Defense for any Carrington servicing business unit is represented by risk owners and managers through their own operational management control and procedures put into place to manage their risks on a day-to-day basis. Within the Risk Control Framework, the First Line business units and/or departments are responsible for: maintaining effective internal controls; executing risk and control procedures on a day-to-day basis; identifying, assessing, controlling, and mitigating risks; developing and implementing internal policies and procedures that are consistent with goals and objectives; and designing systems and processes for control elements.

In addition to the controls at the business unit level, Carrington’s Servicing Division also has a Loan Servicing Quality Assurance Team that assists in the monitoring of internal controls. The Loan Servicing Quality Assurance Team is designed to partner with the loan servicing business units to ensure compliance with federal and state laws, regulations, and the general loan servicing guidelines of federal agencies and investors.

The Second Line, which is independent of the business, includes Risk Management, Quality Control, Financial Control, Regulatory Compliance, Security, Quality Control Vendor Management, Health and Safety, and Legal functions. The Quality Control for Mortgage Servicing Department (“QCSD”) conducts monthly and quarterly reviews in line with servicing requirements to maintain quality and ensure that proper controls are in place for compliance with local, state, and federal laws/regulations. All servicing activities are reviewed continually and reported on monthly and quarterly. As per the QCS Call Quality Policy, QCSD monitors phone calls between Carrington associates and consumers to ensure call quality standards and compliance with local, state, and federal laws/regulations, as well as departmental policies procedures. QCSD is

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responsible for reviewing and scoring calls and reporting its findings. All call quality guidelines, including those for customer service representatives who handle routine servicing inquiries, collections, and loss mitigation activities, are established and tailored to the specific area being monitored. Copies of the Quality Control Servicing Policy and Quality Control Servicing Manual have been provided in support.

The Third Line within the Risk Control Framework is Internal Audit. Internal Audit provides independent assurance to senior management and the Audit Committee, the governing body of Carrington. Internal Audits are designed and intended to ensure: effectiveness and efficiency of operations; safeguarding of company assets; safeguarding consumer interests; integrity and reliability of reporting processes; compliance with regulatory requirements and laws; and policies and procedures are representative of operational practice. Internal Audit performs Risk/Internal Control-Based Audits, wherein risks are identified and then the controls are validated, verified, and tested to ensure such controls, if any, are functioning as intended. Audit Reports are published to senior and executive management of the auditable entity and the members of the Audit Committee. Audit performance trends and data are reviewed by the Audit Committee during committee meetings. The scope of the audit process includes adherence to regulatory requirements and corporate policy, operational risk, internal controls, and client requirements. Copies of the Internal Audit Policy and Internal Audit Plan have been provided in support.

### III. RESPONSE TO FINDINGS

The Report alleges that Carrington did not complete the required loss mitigation activities before initiating or continuing foreclosure in certain loans audited. Specifically, the Report asserts that, in 27 loans, Carrington: (1) did not review borrowers impacted by the COVID-19 pandemic for streamlined options; (2) did not review borrowers' requests for loss mitigation before initiating foreclosure; (3) initiated the foreclosure process while documents necessary to execute the loss mitigation option were outstanding; and (4) did not provide borrowers with accurate information or appropriate assistance. The Report also alleges that Carrington misinterpreted FHA's requirements and had system and manual errors. For the reasons described in more detail below, Carrington respectfully disagrees with the Report's findings.

Carrington strives to service FHA loans in compliance with all applicable regulations, rules, and requirements, and the Company is committed to timely and completely processing loss mitigation requests and to complying with foreclosure-related requirements. Mortgage servicers are subject to several laws and regulations when servicing consumer mortgage loans. For FHA-insured loans, those legal requirements include, but are not limited to, laws, regulations, and guidance applicable to FHA-insured mortgage loans. Mortgage servicers must also comply with, for example, RESPA and its implementing Regulation X, among other laws. Further, HUD introduced several entirely new loss mitigation programs during the COVID-19 pandemic and made significant adjustments to many of its loss mitigation requirements. The CFPB similarly issued interim rules amending Regulation X to more efficiently provide relief to borrowers impacted by COVID-19.

Upon receipt of the Report, Carrington conducted a thorough review of the findings, as well as examined applicable FHA guidelines and internal Company procedures at the time these loans were considered for loss mitigation and foreclosure, in an effort to provide pertinent information and documentation with this response. Our review found that certain of the allegations in the Report are at variance with the facts, do not constitute violations of FHA requirements, or do not affect the underlying loans' eligibility for foreclosure. While we recognize that there is always room for improvement, at no time did the Company intentionally disregard FHA guidelines or knowingly misrepresent information to the Department. Moreover, as noted in the Report, in nearly all

 **Comment 6 >**

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instances, Carrington ultimately provided loss mitigation assistance to eligible borrowers and the borrowers were able to stay in their home. Specifically, thirteen borrowers received a loss mitigation assistance option, four borrowers reinstated their mortgage, and two of the cited loans have been paid in full.

### A. Carrington Properly Reviewed Borrowers for Streamlined Options

Carrington understood HUD's streamlined option requirements and properly assisted borrowers with utilizing streamlined loss mitigation options in compliance with applicable HUD requirements. As noted above, Carrington's loss mitigation policies and procedures provide for the evaluation of borrowers for streamline loss mitigation options in accordance with HUD requirements. While Carrington acknowledges that in rare, limited cases, errors may occur in the process of providing streamlined loss mitigation options to a borrower, as described above, the circumstances of the COVID-19 pandemic and its aftermath presented unprecedented and unique challenges, including the required implementation of new and rapidly changing loss mitigation programs that became effective immediately or near-immediately after being finalized. Even under the circumstances, Carrington at all times used its best efforts to assist a record number of borrowers with streamlined loss mitigation options. Carrington's efforts included extensive outreach to borrowers and reviews for loss mitigation options as needed over a period of many months or even years, including with respect to the loans sampled by OIG, as demonstrated in the loan files. In any isolated instance in which an inadvertent error did occur, Carrington almost always corrected such error as soon as possible after discovery. Moreover, in almost all loans identified in the Report, borrowers ultimately qualified for a loss mitigation option.

 **Comment 7 >**

For example, in one of the cases referred to in the Report, Carrington worked extensively with the borrower over several months to finalize a loss mitigation workout for which the borrower had been approved. Prior to the borrower's COVID-19 forbearance ending, Carrington approved the borrower for loss mitigation and the borrower submitted executed loss mitigation documents; however, Carrington's quality control reviews determined the submitted documents did not fulfill the necessary requirements. Carrington continued to send the borrower loss mitigation documents for proper execution, but after a significant period of time, the borrower did not return fully executed documents and missed several months' worth of modified payments. As a result, Carrington had to close the loss mitigation workout. Although Carrington subsequently referred the loan to foreclosure after repeated attempts to contact the borrower without success, the borrower was reviewed and approved for a streamline loss mitigation shortly thereafter. Thus, the borrower was approved for a streamline loss mitigation option less than two months after the loan was referred to foreclosure, and the foreclosure was not completed. We believe the complete set of facts is highly material to any fair review of this loan, therefore we respectfully request that the final report be amended to include this information.

 **Comment 8 >**

### B. Carrington Properly Reviewed Borrowers' Requests Before Initiating Foreclosure

As discussed at length above, it is Carrington's policy and procedure to properly review borrowers' requests for loss mitigation, including waiting a reasonable period of time for outstanding documents needed to conduct such reviews, before initiating foreclosure in compliance with applicable legal requirements. Carrington did so in the vast majority of sampled loans referenced in the Report. Carrington also takes seriously its obligations to provide accurate information and fulsome assistance to borrowers who are struggling to make their mortgage payments. As described above, Carrington underwent extraordinary efforts to assist all of its customers during the unprecedented circumstances surrounding the COVID-19 pandemic. Carrington

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acknowledges that in rare, limited cases, errors may have occurred in the process of reviewing a record number of borrowers coming out of forbearance for loss mitigation options. As described above, the circumstances of the COVID-19 pandemic and its aftermath presented unprecedented and unique challenges, including implementing new and rapidly evolving loss mitigation programs that became effective immediately or near-immediately after being finalized (or, as in one instance, even before the finalization date). At all times, however, Carrington used its best efforts to provide borrowers with accurate information regarding the loss mitigation process and assist borrowers in obtaining loss mitigation assistance in accordance with HUD and Regulation X requirements.

### Comment 9 >

In one of the cases referred to in the Report, Carrington worked extensively with the borrower to provide loss mitigation assistance. The Report asserts that the first legal action to initiate foreclosure was filed the day after a letter to notify the borrower that his request for loss mitigation assistance was incomplete was sent and before determining the borrower's eligibility for loss mitigation. While those events occurred in close proximity to each other, prior to the borrower's submission of a loss mitigation request on August 10, 2022, Carrington had engaged in significant back-and-forth with the borrower in an attempt to engage the borrower in the loss mitigation process. Furthermore, consistent with HUD requirements to initiate foreclosures timely and as appropriate, Carrington already had approved the foreclosure on July 19, 2022, had scheduled the foreclosure sale on August 5, 2022, and had scheduled first legal publication on August 10, 2022 (all happening before or at the same time as the borrower submitted an application for loss mitigation assistance). Carrington continued to evaluate the borrower for loss mitigation assistance after receiving the borrower's request for assistance. Ultimately, the borrower was approved for a loan modification on September 7, 2022, and the loan was reinstated on September 19, 2022. Meanwhile, the foreclosure action was dismissed on October 6, 2022. Carrington also refunded the borrower for the foreclosure fees and costs in the amount of \$982. Thus, Carrington believes that no further action is warranted in this case and that the Report should be amended to remove this loan.

### Comment 10 >

In another case described in the Report, Carrington worked extensively with the borrower over several months to evaluate the borrower for loss mitigation options and complete the loss mitigation process. The Report alleges that after the final loss mitigation documents expired due to notary issues, Carrington required the borrower to submit a new full loss mitigation application instead of reviewing the borrower for streamlined options or allowing her to resubmit corrected documents. Notably, however, the Report does not consider that Carrington spent over a year attempting to work with the borrower to qualify for loss mitigation. After the borrower was initially approved for a streamlined loss mitigation option in April 2022, the executed loss mitigation documents did not pass internal quality control checks, and the borrower either missed or submitted partial post-modification payments. As a result, Carrington closed the loss mitigation option and proceeded with foreclosure. Importantly, however, the Company did not foreclose on this borrower. Carrington continued loss mitigation attempts after receiving a hardship package from the borrower and was able to complete a loan modification. The loan was later paid in full in August 2023. We therefore maintain that this loan should also be removed from the Report.

#### **C. Carrington Correctly Interpreted Applicable Legal Requirements**

Carrington respectfully disagrees with OIG's finding that Carrington's policies and procedures misinterpreted HUD's requirements. Carrington's policies and procedures appropriately align with all applicable legal requirements for mortgage servicers of FHA-insured loans. Carrington also provides bulletins to its mortgage servicing personnel to help inform servicing personnel of key updates in laws, regulations, and guidance, including bulletins issued to inform servicing

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personnel of COVID-19 and other loss mitigation options for FHA loans. In addition, Carrington has developed and maintains detailed reference guides on loss mitigation waterfalls for all types of consumer mortgages. Carrington also provides training to servicing personnel on key changes to loss mitigation options, including the changes to options that occurred during and following the COVID-19 pandemic. With respect to informing consumers of their loss mitigation options, Carrington updates its website to reflect COVID-19 and other loss mitigation options for FHA loans and informs consumers of their current loss mitigation options through phone calls and letters to consumers who are behind on payments. The Company's policies and procedures are compliant with applicable law, including with respect to Carrington's loss mitigation and foreclosure activities.

On this topic, the Report asserts that Carrington's policies and procedures only stopped foreclosure when applications were deemed complete, which meant that the first legal action to initiate foreclosure moved forward while the Company awaited additional information needed to evaluate and approve the borrower for loss mitigation. The Report concludes this course of action was inconsistent with HUD requirements regarding when to initiate foreclosure, which (the Report holds) do not specify that the loss mitigation application must be complete to place a hold on foreclosure activity.

This allegation fails to consider that federal law under Regulation X *does* prohibit a servicer from evaluating an incomplete loss mitigation application, absent certain exceptions. Regulation X applies to all federally related mortgage loans, including FHA-insured loans. 12 CFR § 1024.2(b). Regulation X specifies certain steps a servicer must take upon receipt of a loss mitigation application received 45 days or more before a foreclosure sale and upon receipt of a complete loss mitigation application received more than 37 days before a foreclosure sale. *Id.* § 1024.41. For a loss mitigation application received 45 days or more before a foreclosure sale, the servicer must review the loss mitigation application and, *if complete*, evaluate the borrower for loss mitigation options. If incomplete, the servicer must notify the borrower of the additional documentation required to complete the application. Regulation X includes an anti-evasion provision that states, absent certain exceptions, "a servicer shall not evade the requirement to evaluate a complete loss mitigation application for all loss mitigation options available to the borrower by offering a loss mitigation option based upon an evaluation of any information provided by a borrower in connection with an incomplete loss mitigation application." *Id.* § 1024.41(c)(2)(i). While the CFPB implemented certain amendments to Regulation X's anti-evasion provision over the course of the COVID-19 pandemic, servicers were consistently required to adhere to the Regulation X provisions applicable to each loan it serviced. These requirements were designed to ensure that a borrower who is engaged in the loss mitigation process is not evaluated on incomplete information that could limit the availability of loss mitigation options under each investor or agency loss mitigation waterfall.

Thus, even though HUD guidelines may not have specified that a borrower's loss mitigation application is required to be complete, Carrington was obligated to adhere to Regulation X's anti-evasion requirements in addition to FHA servicing requirements. As noted above, Carrington's policies and procedures aligned with both FHA requirements and Regulation X, which, absent an exception, required a complete application to move forward with a loss mitigation evaluation.

Moreover, Carrington is bound to comply with HUD's requirements to initiate foreclosure timely when foreclosure is appropriate. HUD Handbook 4000.1 III.A.2.s. Foreclosure is never a desired result and Carrington works diligently to assist borrowers with loss mitigation options. In some circumstances, however, foreclosure may be unavoidable when a borrower simply does not qualify for loss mitigation options and/or does not participate in the loss mitigation evaluation



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 **Comment 11 >**

process. When foreclosure is appropriate, Carrington is bound by HUD requirements to pursue timely foreclosure, consistent with CFPB requirements under Regulation X, and state and local laws regarding the foreclosure process, which are highly variable from state to state.

Carrington's policies and procedures on foreclosure appropriately and accurately consider the universe of federal, state, and local laws that Carrington must comply with during the foreclosure process. While Carrington continuously strives to improve and update its policies and procedures as necessary, the Report's claims regarding Carrington's policies and procedures are unfounded. The specific changes suggested in the Report are not only unnecessary but would not accurately reflect the legal requirements imposed on mortgage servicers including Regulation X. Finally, with respect to the assertions regarding system issues, as discussed in detail above, Carrington had fulsome controls in place to ensure FHA's loss mitigation requirements were met and has continuously worked to improve and adjust those controls to implement new requirements and ensure that borrowers receive loss mitigation assistance where qualified.

**D. The Report's Recommendations Are Not Necessary.**

 **Comment 12 >**

For the reasons discussed in detail above, Carrington disagrees with many of the findings in the Report. In the face of incredibly difficult and unusual circumstances, Carrington used its best efforts to assist its customers with available loss mitigation options. Many thousands of borrowers needed assistance in a short period of time. At the same time, Carrington was continuously reviewing and implementing new loss mitigation options, which often became effective nearly immediately and were constantly changing as agencies created regulations and programs in real time to quickly assist borrowers. Applicable guidance was often sparse, and servicers had little precedent to rely upon when implementing these loss mitigation options. While Carrington always seeks to comply with legal requirements and improve the customer experience, the recommendations included in the Report are unnecessary.

First, the Report recommends that HUD require Carrington to remedy HUD and the 27 borrowers that OIG identified as having improper foreclosure filings and take administrative action if appropriate. Carrington respectfully disagrees that with this recommendation. In the vast majority of the 27 loans, the borrowers received a loss mitigation option, reinstated their loan, or have since paid the loan in full. Borrowers were able to stay in their homes and HUD did not pay out any foreclosure claims. Further, in many cases, Carrington disagrees with the Report's finding. Accordingly, it would be inappropriate to provide remediation with respect to the loans cited in the Report.

The Report also recommends that Carrington update its policies and procedures and controls to comply with certain HUD requirements. As noted throughout this response, Carrington's policies, procedures, and controls appropriately comply with the HUD requirements and other legal requirements. Specifically, Carrington's policies and procedures, including the detailed reference guides on loss mitigation waterfalls discussed above, already provide for eligible borrowers to be reviewed for streamline options without unnecessary documents, notify borrowers if they are ineligible for loss mitigation options, and use best efforts to review borrowers for loss mitigation within 37 days of foreclosure sale. In addition, Carrington's controls prevent manual errors by providing for in-depth reviews of all foreclosure actions and ensuring timely review of documentation provided by borrowers and third parties.

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Finally, regarding the Report, while the audit process is still ongoing at the time the OIG issues its “final” report, the final report and its recommendations are made public on the OIG’s website. As a result, a mortgagee’s investors and peers are able to access the preliminary recommendations of the OIG before a final assessment as to their merit can be made by the Department. These entities often misinterpret the OIG’s recommendations to be final actions by the Department, and frequently misunderstand the potential reimbursement amount cited to be the actual financial penalty assessed by HUD. Under these circumstances, making these preliminary recommendations public could easily be misinterpreted, having an adverse effect on the business of the audited FHA mortgage servicer. If the OIG’s goal is to present the reader with a full and accurate disclosure of the audit and its implications to the audited mortgagee, the Report should include the following disclosure on the first page in bold, capitalized lettering:

**THE REPORT FINDINGS REFLECT THE VIEWS OF THE OFFICE OF INSPECTOR GENERAL AND DO NOT CONSTITUTE A FINAL DETERMINATION OF THE MATTERS RAISED HEREIN BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. THE FINAL DETERMINATION IN THIS MATTER WILL BE MADE BY THE REPORT’S ADDRESSEES, THE HUD ASSISTANT SECRETARY FOR HOUSING – FEDERAL HOUSING COMMISSIONER AND THE ASSOCIATE GENERAL COUNSEL FOR PROGRAM ENFORCEMENT, WHO WILL ULTIMATELY DECIDE WHETHER TO ACCEPT THE REPORT’S RECOMMENDATIONS IN WHOLE OR IN PART OR REJECT THEM.**

#### IV. CONCLUSION

Carrington takes the matters raised in the Report seriously. As discussed above, the Company’s thorough review of the findings set forth in the Report indicated that certain of the allegations in the Report are at variance with the facts or do not constitute violations of HUD/FHA requirements, and the Company has implemented process enhancements to ensure compliance with FHA requirements.

We believe that this response demonstrates that many of the allegations in connection with the cited loans are unwarranted. We respectfully request that the OIG revise its final report to fit the facts of this case and remove allegations from the final report in those instances in which Carrington has demonstrated its compliance with HUD requirements or has addressed the issues raised through procedural or policy changes.

Additionally, Carrington respectfully disagrees with the Report’s use of exceptions from a limited number of loans to extrapolate an error rate across Carrington’s entire portfolio of loans that entered foreclosure in 2022. As discussed above, Carrington disagrees with the Report’s findings in many of these cases and maintain that the 18.15% error rate referenced in the Report is unsupported by the facts and the law.

## Ref to OIG Evaluation – Auditee Comments

Carrington continues to be committed to the highest standards of legal and regulatory compliance. If you have any questions or concerns, please contact me.

Sincerely,



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**Krista Cooley**, Mayer Brown LLP (*via email*)  
**Tori Shinohara**, Mayer Brown LLP (*via email*)  
**Carrie Gray**, Assistant Audit Director, Office of Inspector General, U.S. Department of Housing and Urban Development (*via email*)

## OIG Evaluation of Auditee Comments

- Comment 1 Carrington requested the opportunity to respond to any additional substantive statements added in response to its comments. Our comments do not include any substantive statements that were not previously discussed in the report.
- Comment 2 Carrington questioned the validity of our sampling approach and is taking exception to our projections. Our sampling methodology is described in detail in appendix C of the report. We did a loan-by-loan review of the sampled loans to assess how Carrington applied FHA's foreclosure requirements. The results were projected to the universe of FHA-insured forward loans serviced by Carrington totaling more than \$907 million as of December 31, 2022. This universe of loans was reported in HUD's SFDMS with a first legal action to commence foreclosure status code in calendar year 2022. This is not representative of any other universe of loans. The statistical projection was valid and appropriate. Part of the projection process includes deducting a margin of error to avoid overreporting the number of errors present in the universe.
- Comment 3 Carrington disagreed that all 27 loans identified had exceptions under applicable Federal law, regulations, and guidance. Carrington also disagreed that the five borrowers identified in the audit lost their homes to foreclosure without receiving proper assistance. We audited Carrington's foreclosure activities for the 88 sampled loans on a case-by-case basis, using the FHA program standards contained in handbooks and mortgagee letters and other applicable criteria for the period reviewed. Even though all 27 loans identified as exceptions did not result in an FHA insurance claim, the borrowers may have paid foreclosure-related fees. We agree that sample 13 was not one of the loans cited as an exception. The five exception loans that ended in foreclosure were sampled loans 11, 17, 28, 74, and 84. The borrowers of these sampled loans lost their homes to foreclosure without receiving proper assistance.
- Comment 4 Carrington stated that its policies and procedures included a requirement that Carrington not commence the foreclosure process when a borrower submitted a complete or facially complete loss mitigation application and would give a borrower a reasonable amount of time to provide the required additional documentation. However, we found that Carrington's policies and procedures stopped foreclosure only when applications were deemed complete, which meant that the first legal action to initiate foreclosure moved forward while Carrington awaited additional information needed to evaluate and approve the borrower for loss mitigation. This procedure was inconsistent with HUD's requirements for when to initiate foreclosure, which did not specify that the loss mitigation application must be complete. Carrington considered that the foreclosure process started upon referral to the foreclosure attorney, and at that point, it required a complete loss mitigation application to stop the foreclosure, which did not align with the HUD handbook requirement. In some cases, borrowers were given a deadline to provide additional

information to complete the mortgage assistance application, but Carrington filed the first legal action to commence foreclosure while the borrower was gathering the documents.

- Comment 5 Carrington described several enhancements that had been made since the 2022 audit period. Since our audit period covered 2022, we did not audit the effectiveness of any later updates. During audit resolution, HUD can determine whether current policies and procedures are sufficient to address recommendation 1C or whether additional changes are needed.
- Comment 6 Carrington stated that its review of the report found that certain of the allegations are at variance with the facts, do not constitute violations of FHA requirements, or do not affect the underlying loans' eligibility for foreclosure. Carrington stated that it never intentionally disregarded FHA guidelines or knowingly misrepresented information to HUD. The audit report does not state that Carrington knowingly misrepresented information to HUD or intentionally disregarded FHA guidelines but, rather, that Carrington did not properly design its policies and procedures to fully meet HUD's requirements. During audit resolution, HUD will review the 27 loans with exceptions to determine what actions are warranted.
- Comment 7 Carrington stated that its loss mitigation policies and procedures provide for the evaluation of borrowers for streamline loss mitigation options in accordance with HUD requirements. The HUD handbook provided for streamlined loss mitigation options for COVID-impacted borrowers. Carrington's policy incorrectly required borrowers to submit a loss mitigation application with supporting documents when they should have been evaluated for streamlined options based on a verbal request. Carrington also required borrowers to be on an active forbearance to receive streamlined options. Carrington believed these practices were compliant; however, they did not align with the HUD handbook requirements for streamlined options. Further, Carrington would not offer streamlined options if COVID-impacted borrowers had an additional or new reason for default. Lastly, Carrington would not review borrowers a second time for a streamlined option if it had previously offered one that had not been completed without the borrower's submitting a new application.
- Comment 8 Carrington stated that the sampled loan had an extensive history before foreclosure was initiated and requested that we add the complete set of facts to the report example. Regardless, Carrington should not have filed the first legal action to initiate foreclosure because it did not determine that the borrower was ineligible for loss mitigation beforehand. The borrower indicated that he was impacted by the COVID-19 pandemic and had been previously on a COVID-19 forbearance so he should have been offered a streamline recovery option at the time of his request. Instead, Carrington filed the first legal action to commence foreclosure the day after the mortgage assistance was requested. Carrington missed the opportunity to help the borrower by not reviewing him for the COVID-19 streamlined options when requested. The purpose of the examples is to briefly illustrate the mistake and not to give the complete history of the file.

- Comment 9 Carrington explained that it worked extensively with the borrower to provide loss mitigation assistance for one of the exceptions in our audit. Further, Carrington stated that consistent with HUD requirements, initiating foreclosure was timely and appropriate for the sampled case. However, Carrington should not have initiated foreclosure because the borrower had been engaged with the servicer for more than a year and a half, trying to be evaluated for loss mitigation options. Carrington misplaced a document that was needed to complete the mortgage assistance application, which Carrington located a year after it was submitted by the borrower. Had Carrington approved the loan modification a year earlier, the borrower would have qualified for a significantly lower interest rate. Further, the refund Carrington references occurred after we brought the audit finding to its attention.
- Comment 10 Carrington stated that in another case referred to in the report, it worked extensively with the borrower over several months to provide loss mitigation assistance. Carrington maintains that this loan should be removed from the report. It remains because this borrower should have been reevaluated for streamlined options when the notarized documents were rejected and had to be redone. Carrington should not have required the borrower to submit documentation and enter foreclosure rather than receiving a streamlined option. The borrower was actively engaged with the servicer, trying to fix the notary issues on the fully executed documents. The borrower sent the loan modification documents to Carrington three times, trying to finalize the loan modification, but each time, the documents failed quality control review due to notary issues. The borrower also continued making modified payments until the month when Carrington canceled the loan modification. The borrower was upset that her loan modification was canceled, especially since she did everything that was required of her and she was given conflicting information on what needed to be updated to fix the errors. While the borrower was actively engaged in pursuing loss mitigation, Carrington referred the loan to foreclosure, causing the borrower to pay foreclosure fees and costs.
- Comment 11 Carrington disagreed with our assertions regarding system issues and indicated that it had fulsome controls in place. As noted in the report, Carrington affirmed that it had updated its processes and reporting to ensure that loss mitigation applications would be acknowledged upon receipt, regardless of the ALM review. But for the audit period, Carrington did not properly review loans for loss mitigation if an application was received while the loan was being reviewed for an ALM because the borrower's request did not fall into the appropriate queue in the system to continue the loss mitigation review. As a result, Carrington did not review that request for all loss mitigation options and did not send the appropriate notices to the borrower. Carrington's system errors caused foreclosure to begin rather than the borrower's receiving loss mitigation. Recommendation 1B requires Carrington to identify and resolve any additional loans impacted by this system error.
- Comment 12 Carrington asserted that the report's recommendations are not necessary. First, it disagreed with recommendation 1A because it believes in the vast majority of the 27 loans, the borrowers received a loss mitigation option, reinstated their loan, or have since paid the loan in full. Second, Carrington believes its policies, procedures, and

controls appropriately comply with the HUD requirements and other legal requirements. However, our audit focused on activities in 2022, and we did not review Carrington's policies and procedures currently in effect to verify that they align with HUD guidance. Our recommendations are necessary to address the issues found during the audit and remedy the borrowers when necessary.

## Appendix B – Criteria

### Handbook 4000.1, FHA Single Family Housing Policy Handbook (Issued October 26, 2021)

#### III. A. 1. Servicing of FHA-Insured Mortgages

##### a. Servicing Roles and Responsibilities

###### ii. Standard

Mortgage Holders must ensure all FHA-insured Mortgages are serviced by a Servicer in accordance with FHA requirements and all applicable laws.

Servicers must service all FHA-insured Mortgages in accordance with FHA requirements and all applicable laws.

###### (A) Laws Applicable to Mortgage Servicing

Mortgagees must comply with all laws, rules, and requirements applicable to mortgage servicing, including full compliance with the applicable requirements under the purview of the Consumer Financial Protection Bureau (CFPB), including the Real Estate Settlement Procedure Act (RESPA) and the Truth in Lending Act (TILA).

FHA requirements that are more stringent or restrictive than those provided for in applicable law are set forth in this Handbook 4000.1 and the Mortgagee must comply with these requirements.

#### III.A.2. Default Servicing – Foreclosure

##### o. Presidentially-Declared COVID-19 National Emergency

###### Loss Mitigation for Borrowers Affected by the COVID-19 National Emergency

The following loss mitigation options are available to assist Borrowers impacted, directly or indirectly, by COVID-19:

- COVID-19 Forbearance;
- COVID-19 Advance Loan Modification;
- COVID-19 Recovery Standalone Partial Claim;
- COVID-19 Recovery Modification;
- COVID-19 Recovery Non-Occupant Loan Modification;
- COVID-19 Pre-Foreclosure Sale; and
- COVID-19 Deed-in-Lieu of Foreclosure.

##### iii. COVID-19 Recovery Loss Mitigation Options

###### (A) Definition

The COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options) provide Borrowers impacted, directly or indirectly, by COVID-19 with options to bring their Mortgage current and may reduce the P&I [principal and interest] portion of their monthly Mortgage Payment to reduce the risk of re-default and assist in the broader COVID-19 recovery. The COVID-19 Recovery Options are not incentivized for Mortgagees.



## **(B) Standard**

The Mortgagee must review eligible Borrowers for the COVID-19 Recovery Options. Eligible Borrowers may receive more than one COVID-19 Recovery Option.

### **(1) Borrowers who were on a COVID-19 Forbearance**

The Mortgagee must review all Borrowers who were on a COVID-19 Forbearance for the COVID-19 Recovery Options after the completion or expiration of the Borrower's forbearance period. Mortgagees may review the Borrower for the COVID-19 Recovery options prior to the completion or expiration of the Borrower's forbearance period. A Borrower does not need to exit their forbearance to be reviewed for the COVID-19 Recovery Options.

### **(2) Borrowers who were not on a COVID-19 Forbearance**

The Mortgagee must review all Borrowers who did not participate on a COVID-19 Forbearance for the COVID-19 Recovery Options when the Borrower is 90 or more Days Delinquent and the Borrower affirms they have been negatively impacted by COVID-19. These Borrowers may request COVID-19 loss mitigation assistance through the termination of the COVID-19 National Emergency. The Mortgagee must complete a loss mitigation option for these Borrowers no later than 120 Days from the date of the Borrower's request for loss mitigation assistance. The 120-Day period to complete a loss mitigation option includes the COVID-19 ALM. For Home Disposition Options, a signed ATP [approval to participate] Agreement (form HUD-90045) or a signed DIL [deed-in-lieu of foreclosure] Agreement will meet this requirement. The Mortgagee must document the date of the request for loss mitigation assistance in the Servicing File.

### **(4) Homeowners Assistance Fund**

The Mortgagee must inform the Borrower, utilizing any available method of communication, that they can apply for the Department of Treasury's Homeowner Assistance Fund (HAF), if HAF is available in their jurisdiction. As permitted by the jurisdiction's HAF program, HAF funds may be used in connection with the Borrower's FHA-insured Mortgage or any Partial Claim Mortgage in a manner consistent with the respective mortgage documents and FHA requirements.

## **(C) COVID-19 Recovery Home Retention Options**

A Trial Payment Plan (TPP) is not required for a Borrower to be eligible for the COVID-19 Recovery Options.

### **(2) COVID-19 Recovery Modification**

#### **(c) Standard**

No income documentation is required to calculate the Borrower's modified monthly Mortgage Payment.

## **t. Foreclosure**

When a Borrower with a Mortgage in Default cannot or will not resume and complete their Mortgage Payments, the Mortgagee must take steps to acquire the Property or see that it is acquired by a third party. Before starting foreclosure, the Mortgagee must review its servicing record to be certain that

servicing has been performed in accordance with HUD guidance. When foreclosure is appropriate, Mortgagees must initiate and complete foreclosure in a timely manner.

**i. Mortgagee Action Before Initiation of Foreclosure**

The Mortgagee must exercise reasonable diligence in collecting past due Mortgage Payments by:

- utilizing Early Delinquency Servicing Workout tools;
- determining eligibility of HUD’s Loss Mitigation Program when appropriate;
- performing the first legal action to initiate foreclosure, to acquire title and possession of the Property, when necessary;
- ensuring the Mortgage has been accurately reported to consumer reporting agencies in accordance with applicable federal law; and
- ensuring any former Borrower, co-Borrower and/or co-signer personally liable for payment of the mortgage debt has been notified, as appropriate.

**(B) Time Frame for Utilization of Loss Mitigation or Initiation of Foreclosure**

The Mortgagee must utilize a Loss Mitigation Option or initiate foreclosure within six months of the date of Default. FHA considers the Mortgagee to have satisfied this requirement if, within the six-month time frame, the Mortgagee takes one or a combination of the following actions:

- enters into an SFB [special forbearance]-Unemployment Agreement;
- completes a refinance of an insured cooperative housing Mortgage;
- completes an assumption;
- enters into a TPP Agreement for an FHA-HAMP [home affordable modification program] Option;
- executes a PFS [preforeclosure sale] ATP;
- executes a DIL agreement; or
- initiates the first public legal action to begin foreclosure.

**(C) When to Initiate Foreclosure**

After at least three consecutive full monthly Mortgage Payments are due but unpaid, a Mortgagee may initiate a foreclosure for monetary Default if one of the following conditions are met:

- The Mortgagee has completed its review of the Borrower’s loss mitigation request, determined that the Borrower does not qualify for a Loss Mitigation Option, properly notified the Borrower of this decision, and rejected any available appeal by the Borrower;
- The Borrower has failed to perform under a Loss Mitigation Option agreement, and the Mortgagee has determined that the Borrower is ineligible for other Loss mitigation Options; or
- The Mortgagee has been unable to determine the Borrower’s eligibility for any Loss Mitigation Option due to the Borrower not responding to the Mortgagee’s efforts to contact the Borrower.

**ii. Conduct of Foreclosure Proceedings**

When foreclosure is necessary, the Mortgagee must give timely notice to HUD via SFDMS and exercise reasonable diligence in processing and completing foreclosure proceedings to acquire

good marketable title and possession of the Property. HUD expects Mortgagees to comply with all federal, state, and local laws when prosecuting a foreclosure and pursuing a possessory action.

**(A) Initiating Foreclosure**

**(1) First Legal Action to Initiate Foreclosure**

The Mortgagee must perform the first legal action to initiate foreclosure for each state as provided in Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames.

**(C) Loss Mitigation During the Foreclosure Process**

The Mortgagee may evaluate the Borrower for a Loss Mitigation Option during the foreclosure process where:

- the Borrower submits their initial Complete Loss Mitigation Request; or
- the Mortgagee has determined that the Borrower was ineligible for loss mitigation based on a Complete Loss Mitigation Request and a change in circumstances has occurred so that a Borrower may be eligible for a subsequent loss mitigation review.

**(1) Requests Received during Foreclosure**

The following describes Mortgagee action regarding foreclosure proceedings and loss mitigation requests, depending on when the request is received by the Mortgagee.

**(a) 45 or More Days to Scheduled Foreclosure Sale Date**

**(i) Response**

When the loss mitigation request is received 45 Days or more prior to the scheduled foreclosure sale date, the Mortgagee must notify the Borrower in writing within five business days of receiving the request that:

- the Borrower's request has been received; and
- the request is complete or incomplete.

**(ii) Review**

Within 30 Days of receiving a Complete Loss Mitigation Request, the Mortgagee must:

- review a Borrower's request for eligibility for all Loss Mitigation Options; and
- provide the Borrower with a notice in writing starting the Mortgagee's determination of which Loss Mitigation Option, if any, it will offer to the Borrower.

**(iii) Foreclosure Action**

A Mortgagee must not move forward with a scheduled foreclosure sale during its loss mitigation review.

**(b) More than 37 Days but Less than 45 Days to Scheduled Foreclosure Sale Date**

**(i) Review**

Within 30 Days of receiving a Complete Loss Mitigation Request, the Mortgagee must review a Borrower's request for eligibility for Loss Mitigation Options when

received more than 37 Days but less than 45 Days to the scheduled foreclosure sale date.

If an incomplete request is received and is not completed despite the Mortgagee's repeated requests to the Borrower for information, the Mortgagee may, at its discretion, evaluate an incomplete loss mitigation request and offer a proprietary, non-incentivized Loss Mitigation Option.

**(ii) Foreclosure Action**

The Mortgagee must not move forward with a scheduled foreclosure sale during its loss mitigation review.

**(c) 37 or Fewer Days Prior to the Scheduled Foreclosure Sale Date**

**(i) Review**

A Mortgagee must use its best efforts to complete a thorough and accurate review when the Borrower's request is received 37 Days or fewer, prior to the scheduled foreclosure sale date.

**(ii) Foreclosure Action**

HUD does not require the Mortgagee to suspend the foreclosure sale. The Mortgagee may proceed with a foreclosure sale if the Mortgagee:

- determines after its review of available information that a Borrower is ineligible for loss mitigation; or
- using its best efforts, is still unable to complete a thorough and accurate review of a Borrower's request by the scheduled foreclosure sale date.

**(2) Terminating Foreclosure Proceedings for Loss Mitigation**

When a Borrower requests loss mitigation assistance after the Mortgagee has initiated foreclosure, the Mortgagee must suspend and/or terminate the foreclosure proceedings, depending on the state law requirement, after the Mortgagee has:

- verified that a Borrower's financial situation qualified them for a Loss Mitigation Option;
- allowed the Borrower at least 14 Days to consider the Mortgagee's offer of loss mitigation assistance, if the request for loss mitigation was received more than 37 Days prior to the scheduled foreclosure sale date; and
- received an executed Loss Mitigation Option agreement, where applicable, or sales contract from the Borrower.

If state law requires the Mortgagee to cancel a foreclosure action and then requires the Mortgagee to re-initiate the action at a later date, if needed, the Mortgagee must request an approval from the NSC [National Servicing Center] via EVARS [Extensions and Variances Automated Requests System] for an extension of time to the first legal action deadline prior to approving the Borrower for loss mitigation.

**(3) Communication Between Departments**

The Mortgagee must ensure that strong communication lines are established between the Loss Mitigation and Foreclosure departments to facilitate the coordination of loss

mitigation efforts and the sharing of documentation and information relating to a Borrower's delinquency. Both departments must be aware of when a Borrower's file is under review for HUD's Loss Mitigation Program.

#### **(D) Borrower Sale of the Property before Foreclosure Sale**

HUD encourages the Mortgagee, when possible, to provide the Borrower with an opportunity to sell the Property and to provide a reasonable time to complete the sale. The Mortgagee should not initiate foreclosure if it appears that a sale is probable and should accept payments tendered while the Property is for sale and before foreclosure is started.

## **Mortgagee Letter 2021-05 (Issued on February 16, 2021, and Effective Immediately)**

### **Summary of Changes**

Changes to Loss Mitigation for Borrowers Affected by the COVID-19 National Emergency include:

- extending the foreclosure and eviction moratorium to June 30, 2021, and the deadline for the first legal action and the Reasonable Diligence Time Frame to 180 days;
- extending the COVID-19 Forbearance start date and HECM [home equity conversion mortgage] extension period to June 30, 2021;
- providing up to two additional three-month COVID-19 Forbearance periods or HECM extension periods for certain Borrowers;
- allowing additional Borrowers, regardless of delinquency status or participation on a COVID-19 Forbearance, to utilize FHA's COVID-19 Loss Mitigation Options; and
- removing the restriction on Borrowers receiving more than one COVID-19 Home Retention Option.

### **Background**

Due to the length of the pandemic, and its impact across all sectors of the economy, HUD is expanding its streamlined options to additional Borrowers and removing the limitation on the number of permanent COVID-19 Home Retention Options available. HUD believes these additional measures will provide Mortgagees a better toolbox with which to assist Borrowers in recovery from the impacts of the pandemic. HUD believes that the extension of these moratoria, in addition to the increased eligibility of Borrowers for Loss Mitigation, will help marginalized communities that have been disproportionately impacted by the COVID-19 pandemic. HUD also encourages Mortgagees and Borrowers alike to utilize the extensive network of HUD-approved Housing Counselors to expedite this additional relief, especially to underserved populations.

## **Mortgagee Letter 2021-18 (Issued July 23, 2021, and Effective No Later Than 90 Days From the Publication Date)**

### **Summary of Changes**

This ML [mortgagee letter] establishes the COVID-19 Recovery Home Retention Options and associated Single Family Default Monitoring System (SFDMS) Status Codes, which include the following:

- COVID-19 Recovery Standalone Partial Claim;
- COVID-19 Recovery Modification; and
- COVID-19 Recovery Non-Occupant Loan Modification.

The following COVID-19 Loss Mitigation Options are being replaced:

- COVID-19 Standalone Partial Claim;
- COVID-19 Owner-Occupant Loan Modification;
- COVID-19 Combination Partial Claim and Loan Modification;
- COVID-19 FHA-HAMP Combination Loan Modification and Partial Claim with Reduced Documentation; and
- COVID-19 Non-Occupant Loan Modification.

This ML streamlines the requirements for the COVID-19 Pre-Foreclosure Sale. This ML also establishes the deadline by which Borrowers who have not been on a COVID-19 Forbearance may request COVID-19 loss mitigation assistance.

### **Background**

The revised COVID-19 Recovery Options will provide a path to deep and sustained recovery for Borrowers who were significantly impacted by the pandemic. The pandemic has caused a lengthy period of instability that has deeply impacted FHA homeowners requiring a streamlined approach to ensure Borrowers remain in their homes whenever possible. FHA anticipates these COVID-19 Recovery Options will particularly help low-income households, first-time homeowners, and households of color that have been disproportionately impacted by the pandemic.

## Appendix C – Statistical Projection – Results and Methodology

### Audit Universe

The audit universe consisted of 7,998 single-family FHA-insured forward loans serviced by Carrington totaling more than \$907 million as of December 31, 2022. This universe of loans was reported in HUD’s SFDMs with a first legal action to commence foreclosure status code in calendar year 2022.

### Sampling Methodology

We identified a highly stratified random sample of 88 records for auditing from the universe. We designed the strata to group sampling units by the unpaid principal balance as of March 2023 for a given loan. To design the strata, we grouped the data into two different domains – one for loans with unpaid loan balances less than \$195,300 and the other for loans with unpaid loan balances greater than \$195,300. The two tables below detail the strata breakpoints and other sample design characteristics.

Sampling domains				
Domain	Valuation	Loan count	Number of strata	Samples per stratum
Domain1	All unpaid balances below \$195,300	7,009	4	10
Domain2	All unpaid balances above \$195,300	989	3	10

Sample design table						
Stratum	Stratum breakpoints (unpaid loan balances)	Accumulated square root of unpaid balances (upper bound)	Total count in stratum	Sample count	Probability of selection	Sampling weight
Domain1_01	\$427 - \$67,950	\$511,040	2,457	10	0.00407	245.70
Domain1_02	\$67,954.4 - \$99,149.67	\$1,021,965	1,774	13	0.007328	136.46
Domain1_03	\$99,187.75 - \$135,149.95	\$1,532,956	1,503	16	0.010645	93.94
Domain1_04	\$135,187.2 - \$195,226.41	\$2,044,115	1,275	19	0.014902	67.11
Domain2_01	\$195,389.84 - \$228,761.75	\$170,103	370	10	0.027027	37.00
Domain2_02	\$228,845.86 - \$286,342.02	\$340,256	339	10	0.029499	33.90
Domain2_03	\$286,397.65 - \$778,039.49	\$511,174	280	10	0.035714	28.00
<b>Total</b>	N/A	N/A	7,998	88	N/A	N/A

We tested the sample design with various rates of error to confirm that we could obtain a reliable projection answer with this sample design and that the confidence intervals as specified would provide an accurate probabilistic statement. Based on the testing and simulated sampling distributions, we found a stratified sample of 88 to be more than sufficient, and we selected that sample size.

The review team did not use any spares. Therefore, the sampling weights did not change.

### Statistical Estimates

We computed the percentage and number of counts of the audit results with exception based on the sampling results, and we extended this result to the population using the surveyfreq procedure provided by SAS®. We estimated the lower confidence interval using a Gaussian sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 7,998 records in the universe to get the total universe count of loans with a material deficiency.

The basic estimation calculations are as follows:

$$\text{Amount}_{LCL} = N * (\mu - t_{\alpha/2} SE_{\$})$$

$$\text{Count}_{LCL} = N * (pct - t_{\alpha/2} SE_{\%})$$

<i>Amount</i> <sub>LCL</sub>	= total review-finding amount after deducting a margin of error
<i>Count</i> <sub>LCL</sub>	= total number of sampling units with the error after deducting a margin of error
<i>N</i>	= total number of sampling units in the sampling frame
<i>μ</i>	= weighted average value of the error per unit
<i>pct</i>	= weighted percentage of sampling units with the error in the sampling frame
<i>SE</i> <sub>\$</sub>	= standard error per unit, as applies to projecting dollars
<i>SE</i> <sub>%</sub>	= standard error per unit, as applies to projecting proportions
<i>t</i> <sub>α/2</sub>	= student's - t for projecting a one-sided confidence interval for a sample of this size.

### Percentage-Count Projection Results

We found that in 27 of 88 loan records reviewed, there was an exception. This amounts to a weighted average of 27.94 percent of loans reviewed. Deducting for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 18.15 percent of the loans met this condition. Extending this percentage to the universe of 7,998 loan records, at least 1,451 Carrington loans had an exception, and that number could be higher.

Percentage calculation:  $27.94\% - (1.665 \times 5.88\%) \approx 18.15\%_{LCL}$

Total loans projection:  $7,998 \times (27.94\% - (1.665 \times 5.88\%)) \approx 1,451.53_{LCL}$

### Dollar Projection Results

We found that in 27 of 88 loan records reviewed, there was an exception. This amounts to a weighted average per loan of \$35,609. Deducting for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that this amounts to at least \$25,610 per loan. In the context of the universe of 7,998 loans, this amounts to at least \$204.8 million in FHA-insured loans, and this dollar amount could be higher.

Per loan calculation:  $\$35,609.45 - (1.665 \times \$6,009.83) \approx \$25,609.79_{LCL}$

Universe projection:  $7,998 \times (\$35,609.45 - (1.665 \times \$6,009.83)) \approx \$204,827,066.49_{LCL}$