



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

Surplus Proceeds From Nonconveyance Foreclosures

**Office of Audit, Region 7
Kansas City, KS**

**Audit Report Number: 2018-KC-0004
September 20, 2018**



To: Gisele Roget, Deputy Assistant Secretary for Single Family Housing, HU

From: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

Subject: HUD Did Not Always Identify and Collect Partial Claims Out of Surplus Foreclosure Proceeds

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's identification and collection of surplus foreclosure proceeds to offset outstanding partial claims.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



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HUD Did Not Always Identify and Collect Partial Claims Out of Surplus Foreclosure Proceeds

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) efforts in recovering partial claims from surplus foreclosure proceeds. We initiated this audit because we learned while doing unrelated audit work that a trustee attorney held surplus proceeds from two nonconveyance foreclosures and HUD had not claimed these funds to offset earlier partial claims it had paid for the properties. Our audit objective was determine whether HUD identified and collected outstanding partial claims out of surplus proceeds from nonconveyance foreclosures.

What We Found

HUD did not always identify and collect partial claims out of surplus proceeds from nonconveyance foreclosures. Of the 81 foreclosures reviewed, 32 had nearly \$768,000 in surplus proceeds that HUD did not recover. As a result, HUD's insurance fund did not receive the benefit of nearly \$6.8 million, various third parties benefited at HUD's expense, and the unclaimed funds sat dormant with the custodians.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing (1) pursue the collection of \$5.7 million in surplus proceeds that HUD is entitled to reclaim from 2017 loan terminations, (2) implement a policy to require servicers to send surplus proceeds notifications to HUD's national loan-servicing contractor and establish procedures to improve HUD's surplus proceeds collection efforts, and (3) redesign the partial claim program to eliminate its weaknesses to put \$6.8 million to better use.

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Background and Objective

The Federal Housing Administration (FHA) provides mortgage insurance for loans made by FHA-approved lenders throughout the United States and its territories. FHA mortgage insurance protects lenders against losses from homeowners defaulting on their mortgage loans. If a property is foreclosed upon and the lender is the winning bidder at the foreclosure sale, the lender will generally convey the property to FHA, which pays a claim to make the lender whole. A claim without conveyance of title is a procedure under which the lender attempts to secure a third-party purchaser for the mortgaged property so that conveyance to HUD is not required in exchange for mortgage insurance benefits. However, if a third party is the winning bidder and the lender has been made whole by the sales proceeds, there is no need for FHA to pay a claim.

Loss mitigation is critical to FHA because it helps borrowers in default keep their homes while reducing the economic impact on the insurance fund. The FHA partial claim is a loss mitigation tool that helps borrowers keep their homes by advancing funds on behalf of the borrowers to reinstate delinquent FHA-insured mortgages. The borrowers execute promissory notes and mortgages payable to the U.S. Department of Housing and Urban Development (HUD) when they accept the advances. A partial claim note does not accrue interest and is not due and payable until the related first mortgage has been paid off, has matured, or has been refinanced with a non-FHA-insured mortgage or the borrower sells the property. It is used to write down the mortgage balance and is recorded as a junior lien against the property in favor of HUD. HUD has paid more than 640,000 partial claims since the program began in 1997.

HUD's National Servicing Center helps FHA homeowners by working with lenders to administer the Loss Mitigation program. The National Servicing Center contracts the servicing, collecting, and managing of partial claims to its national loan-servicing contractor. Partial claim notes become due and payable when their related FHA-insured mortgages are terminated.

FHA mortgages are sometimes terminated in foreclosure. Surplus proceeds may exist when a foreclosed-on property is sold to a third party for more than the outstanding balance of the mortgage. Rising real estate values create an environment in which lenders can foreclose on properties and sell them above the mortgage balance, which is more likely when a mortgage has been previously reduced by a partial claim. Surplus proceeds remaining after the first mortgage is satisfied are generally held by the foreclosure trustee or local clerk of the court and disbursed to satisfy junior lien holders. In the case of an FHA partial claim, HUD is a junior lien holder entitled to those surplus funds. The claim and disbursement processes are governed by State law and, therefore, vary by jurisdiction. In all cases, lien holders have to file a claim with the appropriate entity to receive their portion of the surplus as these funds are not automatically disbursed. The funds are then disbursed based on lien priority. If no lien holder claims are submitted, the funds may be deposited with the State unclaimed funds office after a certain period or claimed by the foreclosed-on homeowners.

Our audit objective was determine whether HUD identified and collected outstanding partial claims out of surplus proceeds from nonconveyance foreclosures.

Results of Audit

Finding: HUD Did Not Always Identify and Collect Partial Claims Out of Surplus Foreclosure Proceeds

HUD did not always identify and collect partial claims out of surplus proceeds from nonconveyance foreclosures. This condition occurred because HUD lacked a policy enabling it to identify surplus funds, HUD had inadequate procedures to claim surplus funds, and the partial claim program as designed did not always adequately protect HUD's interests. As a result, HUD's insurance fund did not receive the benefit of nearly \$6.8 million, various third parties benefited at HUD's expense, and the unclaimed funds sat dormant with the custodians.

HUD Did Not Identify and Collect Surplus Proceeds

HUD did not always identify and collect partial claims out of surplus proceeds from nonconveyance foreclosures. Of the 81 foreclosures reviewed, 32 had nearly \$768,000 in surplus proceeds that HUD did not recover (appendix C). We project that HUD failed to recover surplus proceeds from 353 properties with insurance that terminated in 2017 (appendix D).

HUD did not always identify surplus proceeds from the sale of foreclosed-on properties. While HUD received foreclosure notifications, it had no way of identifying which foreclosures would generate surplus proceeds as only a small portion of the foreclosures did so. After the foreclosures, the trustees or courts in jurisdictions across the country did not always send notifications of surplus proceeds to HUD, and when they did, notifications varied regarding where they were sent and what information they contained. When HUD did not receive notification, it was not aware of the existence of surplus proceeds that it could claim to offset outstanding partial claims.

HUD did not always collect surplus proceeds from the relevant courts or trustees. In some instances, HUD was aware of the existence of surplus proceeds but failed to collect the funds. In one case, an attorney filed for and received surplus proceeds on behalf of HUD, but HUD did not obtain the funds. HUD was not aware that the attorney had received the funds on its behalf. In another case, a company offered to claim surplus proceeds on HUD's behalf for a fee. HUD declined to engage the company and did not attempt to collect the funds itself.

HUD Had Inadequate Controls To Protect Its Interests

HUD lacked a policy enabling it to identify surplus funds, it had inadequate procedures to claim surplus funds, and the partial claim program as designed did not always adequately protect its interests.

HUD lacked a policy enabling it to identify surplus proceeds from foreclosure sales. It did not require mortgage servicers to notify it of surplus proceeds when insured properties underwent nonconveyance foreclosures and the associated properties were sold for more than the mortgage balances. HUD could have identified surplus proceeds to be claimed if it had required servicers to submit specific information about surplus proceeds to a specified address. Such a policy could

have required submission of information needed by HUD to claim the surplus proceeds and prescribed penalties for noncompliance. Without such a requirement, HUD had to rely on various third parties for surplus proceeds notifications, which varied based on State laws and trustee practices. Courts and trustees sent notification letters to various addresses, including the local United States Attorney's offices or HUD headquarters. HUD's national loan-servicing contractor did not always receive these notifications of surplus proceeds.

HUD had inadequate procedures to ensure that it pursued collection of surplus proceeds. The national loan-servicing contractor's loan-servicing guide required it to diligently pursue the collection of all surplus funds to augment any losses that typically occurred from the foreclosure of the first lien by completing all documentation required to obtain those funds in a timely manner. However, in cases in which surplus proceeds were deposited with court systems, HUD's contractor was unable to file for the surplus proceeds directly and had to rely on HUD's Office of General Counsel or a finder firm. HUD did not have a procedure to ensure that it referred surplus proceeds cases, received from finder firms that it declined to hire, to the Office of General Counsel for processing. HUD also lacked a procedure for following up on finder firms that it hired to ensure that they remitted the required surplus proceeds amount.

HUD's collection efforts were hampered by the design of the partial claim program. When a borrower received a partial claim to pay down the principal mortgage amount, the amount of the partial claim became a junior lien without priority over any other liens that existed when the partial claim was recorded. In essence, the partial claim amount was moved from first priority in the mortgage to an inferior lien position. The partial claims were not serviced by the FHA loan servicer, so the FHA loan servicer did not make a claim on HUD's behalf when the associated property was sold in a foreclosure sale. However, the FHA loan servicer had the information needed to make the claim for the partial claim and remit the funds to HUD. Junior liens were not included in the loan payoff of the first mortgage or foreclosure judgments and required a separate claim process from the first mortgage, which hindered collection efforts.

HUD Did Not Receive \$6.8 Million in Surplus Proceeds

HUD's insurance fund did not receive the benefit of nearly \$6.8 million, various third parties benefited at HUD's expense, and the unclaimed funds sat dormant with the custodians.

As the partial claim program is currently structured, HUD could have claimed only \$5.7 million of the \$6.8 million. HUD's insurance fund did not receive the benefit of \$5.7 million that it could have collected under the current structure of the partial claim program. For the sample loans, HUD could have collected more than \$643,000 if it had immediately claimed the surplus foreclosure proceeds. This figure was calculated after deducting amounts due to higher priority lien holders. For all loans terminated in 2017, we estimated that HUD could have collected nearly \$5.7 million in surplus proceeds if it had claimed the funds (appendix D).

Junior lien holders with higher priority benefited at HUD's expense as their claims were paid before HUD's, exhausting the surplus proceeds. We identified seven sample items for which HUD received or might receive less of the surplus proceeds due to other lien holders' claims on the funds. In one case, there was a surplus of \$101,225, but HUD received only \$57,695 to satisfy \$129,535 in outstanding partial claims. In another case, a superior lien holder received all of the \$15,578 in surplus proceeds. If HUD had been able to receive the full amount of the

surplus it was entitled to reclaim for our sample, it would have received an additional \$125,000. For all loans terminated in 2017, we estimated that HUD could have collected nearly \$6.8 million if the partial claim had not lost lien priority to a previously recorded lien.

Some foreclosed-on homeowners received the surplus funds at HUD's expense. For nine sampled items, the foreclosed-on homeowners received a total of nearly \$200,000 in surplus proceeds that HUD failed to claim. In one case in the State of Utah, the notification of surplus funds was sent to HUD at 451 7th Street SW, Washington, DC 20410, but the contractor did not receive it, and the borrower claimed the \$31,649 surplus.

Finally, trustees, court systems and States held onto the surplus proceeds until they were claimed. These entities held onto the funds, which HUD might never claim. In one of these cases, the funds were deposited with the State of Virginia's Unclaimed Property office in the name of a trustee listed on the recorded partial claim mortgage. No other information, such as an FHA case number, was listed to indicate that the funds were surplus proceeds from a foreclosure sale that HUD was entitled to receive.

Conclusion

HUD did not always identify and collect partial claims out of surplus proceeds because it had inadequate policies and procedures and the partial claim program as designed did not always adequately protect its interests. As a result, HUD did not collect an estimated \$5.7 million in surplus proceeds from 2017 loan terminations and might not collect an additional \$6.8 million over the next year.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 1A. Pursue the collection of the \$5,690,000 in surplus proceeds that HUD was entitled to receive from 2017 loan terminations.
- 1B. Implement a policy to require servicers to send surplus proceeds notifications to the HUD Secretary-held assets servicing contractor and establish procedures to improve HUD's surplus proceeds collection efforts.
- 1C. Redesign the partial claim program to eliminate its weaknesses and ensure that partial claims benefit from a stronger lien position to put \$6,770,000 to better use.

Scope and Methodology

To accomplish our objective, we

- interviewed HUD and loan-servicing contractor personnel;
- reviewed Federal regulations, HUD handbooks, and mortgagee letters;
- selected and reviewed a sample of loans for which insurance coverage was terminated in HUD's Single Family Data Warehouse without an insurance claim being paid; and
- reviewed sample documentation from lenders, trustees, and court systems.

We performed our audit between January and July 2018. Our audit generally covered January 1 through December 31, 2017. We conducted onsite work at HUD headquarters at 451 7th Street SW, Washington, DC; HUD's National Servicing Center at 301 Northwest 6th Street, Suite 200, Oklahoma City, OK; and HUD's national loan-servicing contractor's office at 2401 Northwest 23rd Street, Suite 1A1, Oklahoma City, OK.

The Single Family Data Warehouse is a large and extensive collection of database tables, organized and dedicated to support the analysis, verification, and publication of single-family housing data. Using this system, we identified 1,184 loans with 1,267 partial claims that totaled more than \$35.8 million. These loans were terminated during calendar year 2017 without insurance claims and were coded as third-party sales or nonconveyance foreclosures. We reviewed a sample of 81 of those loans with more than \$3.1 million in partial claims. This sample included 75 statistically selected loans plus 6 loans that were excluded from the statistical universe as outliers. See appendix D for a detailed explanation of our sample selection and results projection.

For each loan in our sample, we requested from the lenders documentation of evidence of the amount paid by the third-party purchaser, the total loan payoff amount, evidence showing payoff of partial claims, evidence of the existence of surplus proceeds, evidence of the disposition of surplus proceeds, title search documents, contact information for the attorney or trustee firm that handled the foreclosure sale, the court jurisdiction that handled the foreclosure sale, and any communications with HUD related to this loan. When the lenders provided insufficient information, we contacted various court systems and trustee attorneys for additional information. We reviewed this information to determine whether there were surplus proceeds generated from the foreclosure sale that HUD did not claim.

We also obtained the current status of the partial claims in our audit universe from HUD's Single-Family Mortgage Asset Recovery Technology System. This is HUD's comprehensive loan-servicing system used for analyzing, processing, and tracking FHA-insured mortgage loan-servicing functions. We used this information to determine the stage in the collection process for each partial claim in our sample.

We relied in part on data maintained by HUD in its Single Family Data Warehouse database. Specifically, we relied on the data to identify loans with insurance coverage terminated during our audit period. Although we did not perform a detailed assessment of the reliability of the

data, we verified the fields used to determine our sample universe against documentary evidence supplied by the lenders for our 81 sampled loans. Based on the work performed, we determined that the computer-processed data were sufficiently reliable for the purposes of this report.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Controls to ensure that HUD identifies and collects outstanding partial claims out of surplus proceeds from nonconveyance foreclosures.

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- HUD did not have policies and procedures in effect to identify and collect surplus foreclosure proceeds to offset partial claims.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$5,690,000	
1C		\$6,770,000
Totals	5,690,000	6,770,000

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. In this instance, HUD is entitled to the surplus proceeds from loans terminated in 2017 and needs to collect them. We have categorized them as ineligible costs because it is money due to HUD and not eligible to be retained by others.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD implements our recommendations, it will ensure that it receives its portion of available surplus proceeds.

Appendix B

Auditee Comments

The Office of Single Family Housing informed us that HUD did not wish to provide written comments to include in the final report.

Appendix C

Unrecovered Surplus Proceeds

Count	Case #	Partial claim amount	Unrecovered surplus proceeds	Unrecovered surplus proceeds adjusted for liens*	State	Holder at time of sample selection
1	023-4086549	28,432	27,402	27,402	AZ	Finder firm
2	023-5339837	51,087	51,087	51,087	AZ	Court system
3	052-1406691	31,811	31,811	31,811	CO	Borrower
4	052-5576508	53,357	47,385	50,493	CO	Borrower-lien holder
5	091-3786904	23,505	53	53	FL	Court system
6	093-7724075	30,038	30,038	30,038	FL	Borrower
7	095-1431593	26,000	3,563	3,563	FL	Lien holder
8	105-1563057	27,486	4,139	24,395	GA	Trustee
9	105-5361020	26,878	26,878	26,878	GA	Trustee
10	105-7104047	90,546	27,130	27,130	GA	Servicer
11**	197-3738981	123,906	11,040	21,015	CA	Borrowers-lien holder
12**	197-4158964	129,535	57,695	101,225	CA	Trustee
13	264-0368086	49,561	25,000	25,000	MI	Sheriff's department
14	321-1863383	13,564	101	101	NE	Borrower
15	332-4882614	22,500	22,500	22,500	NV	Borrower
16	341-1000319	79,436	21,688	21,688	NH	Trustee
17	387-0451596	21,655	21,655	21,655	NC	Court system
18	387-0665726	15,767	7,468	7,468	NC	Court system
19	492-4847316	12,540	12,540	12,540	TX	Trustee
20	492-8362967	40,897	24,342	24,342	TX	Trustee
21	492-9114500	6,105	6,105	6,105	TX	Borrower
22	493-6948677	24,430	24,430	24,430	TX	Borrowers
23	493-8204173	38,221	148	148	TX	Lien holder
24	493-8409709	4,959	4,959	4,959	TX	Trustee
25	521-8001584	24,985	24,985	24,985	UT	Borrower
26	541-5966228	34,314	5,799	34,082	VA	Trustee
27	544-0242937	39,987	2,305	2,305	VA	Unclaimed Property
28	544-0871741	37,575	0	4,042	VA	Lien holder
29**	561-9675049	164,399	44,736	44,736	WA	Court system
30	562-1963897	35,378	0	15,578	WA	Lien holder
31	566-1033095	105,040	48,633	48,633	WA	Court system
32	591-1051546	46,235	27,601	27,601	WY	Trustee
Total		1,460,129	643,216	767,988		

*This column shows the amount adjusted upward to what HUD could have claimed absent pre-existing liens.

**Selected as part of the 100 percent sample of six outliers. The other items were statistically selected.

Appendix D

Sampling and Projections

Our sampling objective was to determine whether there were surplus proceeds from nonconveyance foreclosures that HUD failed to claim to offset its balance of partial claims secondary loans. Our sampling universe consisted of 1,178 mortgages, which had been restored at least once by secondary loans known as “partial claims” but were later reported as ending in third-party sales or nonconveyance foreclosures and terminated in HUD’s insurance system in calendar year 2017. The total amount of partial claims on these loans was more than \$35 million. Six mortgages from 2017, which had partial claim amounts in excess of \$112,000, were omitted as outliers and were not included in the counts above.

Sample design

To control for variance, we stratified on the amount of the partial claim. Loans were sorted and ranked by dollar value and then stratified in eight groups according to percentile points along this continuum.

We validated the sample design using replicated sampling (computer simulations) across several audit scenarios. A sample size of 75 was found to be sufficient.¹

Strata	Universe	Samples	Wts.
0-10pct	118	7	16.857
10-20pct	117	7	16.714
20-30pct	118	8	14.750
30-50pct	236	15	15.733
50-70pct	235	15	15.667
70-90pct	236	15	15.733
90-95pct	59	4	14.750
95-100pct	59	4	14.750
Totals	1,178	75	

Based on the design, we selected a statistical sample using the surveyselect procedure in SAS®, a widely used statistical software package. Using the selected sample, the audit team acquired records from the relevant loan servicers, as well as court systems and attorneys as needed in certain cases. The audit team examined records to determine whether there were surplus proceeds, which HUD could have recovered to repay its outstanding partial claims loans.

The team determined whether HUD failed to recover the available surplus proceeds, the current status of the surplus proceeds, and how much HUD could have expected to receive. The team determined two amounts for each failure: (1) the amount HUD could have expected to receive if it had filed for the surplus and (2) the amount HUD could have expected to receive if the partial claim had not lost lien priority to a previously recorded lien.

Percentages, counts, and average dollar amounts were estimated and projected to the universe as a whole. Because all randomly selected samples are subject to “the luck of the draw,” we

¹ During execution of the audit, one of the 75 was untraceable with respect to the dispensation of foreclosure proceeds due to rare circumstances. This sample item (case number 221-1756769) was replaced with a spare, which had been selected for that possibility along with the original sample.

calculated a margin of error for each type of measure and made a final projection on that basis. This was done by computing the mean and standard error of the percentages and dollar amounts using the means estimating procedure (surveymeans) and counts estimating procedures (surveyfreq) in SAS[®]. Variances were calculated using a Taylor series. We used the traditional formulas for estimating the lower bounds (LCL) of counts and dollar amounts as noted below:

$$Count_{LCL} = N (pct - t_{\alpha/2} SE_{\%})$$

$$Amount_{LCL} = N(\mu - t_{\alpha/2} SE_{\$}) + individual\ outlier\ cases$$

In auditing the 75 mortgage terminations, we found leftover partial claims funds, which HUD was entitled to reclaim, in 27 of the 75 loans in our sample. We also found cases in which HUD was not protected as a first-priority lien holder, and if the program had been designed to ensure that HUD remained a first-position debtor, HUD could have collected funds on 29 of the 75 loans in the sample. Applied to the 1,178 loans in our universe, which had partial claims, we can say the following things with a one-sided confidence interval of 95 percent:

HUD Missed the Opportunity To Recover Significant Funds, Which Could Have Been Used To Pay Off Outstanding Debts From Unpaid Partial Claims Loans

Even after deducting a margin of error, we can say that HUD failed to recover at least \$5.69 million in unrecovered surplus proceeds, which were owed on partial claims secondary loans. These problems affected at least 321 loans.

Our calculations are shown below:

$$(35.87\% - 1.668 \times 5.15\%) \times N = 27.3\% \times N \approx 321 \text{ loans with unrecovered surplus}$$

$$(6986.1 - 1.668 \times 1345.9) \times N = 4741.29 \times N + \$113,472^{ii} = \$5,690,000 \text{ unrecovered surplus proceeds}$$

If the program had been adequately designed to protect HUD as the first-priority lien holder, we could say that HUD had failed to recover at least \$6.77 million in unrecovered surplus proceeds, which were owed on partial claims' secondary loans. These problems affected at least 353 loans.

Our calculations are shown below:

$$(38.53\% - 1.668 \times 5.12\%) \times N = 30\% \times N \approx 353 \text{ loans with unrecovered surplus}$$

$$(7934.1 - 1.668 \times 1393.8) \times N = 5609.31 \times N + \$166,977 = 6,770,000 \text{ unrecovered surplus proceeds}$$

ⁱⁱ Six loans were removed from the statistically projectable universe as individual outlier cases due to their large size. These loans were audited separately from the audit sample. While these loans did not add significant amounts to the projected totals, they did add some, and the total unrecovered funds from these six loans were added to the statistically projected totals. These loans added \$113,472 to the statistical projection in one case and \$166,977 in the other. We did not add the results from these six loans to the projected counts because their impact on the percentages would be minimal and the additional effect was overpowered by other sources of uncertainty, such as how well the Gaussian treatment of percentages mimics a hypergeometric calculation of the true percentages.

Because our sample period covered an entire year, we can say that these findings represent \$5.69 million per year that HUD loaned under the partial claims program, which could have been recovered and put to better use. Accounting for the failure to protect first-priority status as a lien holder, this number becomes \$6.77 million per year.