



Bankers Mortgage Group, Woodland Hills, CA

FHA Loan Originations



Issue Date: September 13, 2012

Audit Report Number: 2012-LA-1011

TO: Charles S. Coulter, Deputy Assistant Secretary for Single Family Housing, HU
Dane Narode, Associate General Counsel for Program Enforcement, CACC

Tanya E Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region,
9DGA

SUBJECT: Bankers Mortgage Group, Woodland Hills, CA, Loan Originations Did Not
Comply With FHA-Insured Loan Documentation Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of Bankers Mortgage Group.

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 8L, requires that OIG post its publicly available reports on the OIG Web site. 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 (213) 534-2471.



September 13, 2012

Bankers Mortgage Group, Woodland Hills, CA, Loan Originations Did Not Comply With FHA-Insured Loan Documentation Requirements

Highlights

Audit Report 2012-LA-1011

What We Audited and Why

We audited loans originated by Bankers Mortgage Group, Woodland Hills, CA, in response to a referral from the Office of Inspector General's (OIG) Office of Investigation alleging that Bankers Mortgage Group originated loans with false documentation. Our objective was to determine whether the lender originated FHA-insured loans using sufficient, reliable, and valid documentation.

What We Recommend

We recommend that Bankers Mortgage Group or other responsible lender (1) indemnify HUD against potential losses of more than \$1.5 million for eight loans and (2) reimburse the FHA insurance fund \$58,704 for the actual loss on one loan. We also recommend pursuit of remedies under the Program Fraud Civil Remedies Act (31 U.S.C (United States Code) 3801-3812), civil money penalties (24 CFR (Code of Federal Regulations) 30.35), or both against Bankers Mortgage Group, its principals, or both for certifying to the truthfulness and correctness of false or questionable loan information. We also recommend that the HUD Quality Assurance Division (QAD) review the remaining loans that were originated by Bankers Mortgage Group, and take action as appropriate.

What We Found

Bankers Mortgage Group did not originate loans using sufficient, reliable, and valid documentation in compliance with HUD requirements. Specifically, 9 of 10 loans reviewed contained significant deficiencies that affected the integrity of data entered into the automated underwriting system. These nine loans with significant deficiencies were originated with false or questionable income and asset documentation. This included income that could not be verified, gifts to borrowers that lacked evidence of source of funds, and improperly sourced earnest money deposits.

This occurred because Bankers Mortgage Group disregarded FHA requirements pertaining to required documentation for loan originations. As a result, the FHA fund was put at risk for losses totaling more than \$1.5 million.

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BACKGROUND AND OBJECTIVES

The Federal Housing Administration (FHA) was created by Congress in 1934 and provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single-family and multifamily homes including manufactured homes and hospitals. It is the largest insurer of mortgages in the world, having insured more than 34 million properties since its inception.

FHA mortgage insurance provides lenders with protection against losses as a result of homeowners defaulting on their mortgage loans. Lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance.

FHA operates entirely from self-generated income and is not funded by taxpayers. The proceeds from the mortgage insurance paid by homeowners are maintained in an account that is used to operate the program.

FHA is authorized to pursue civil money penalties against any owners, officers, or directors of an FHA-approved lender for violations of program requirements. FHA may also pursue civil money penalties against any non-FHA-approved or unauthorized individual or entity that originates an FHA-insured loan or any participant in FHA programs that causes or participates in any violation set forth in section 536(b)(1) of the National Housing Act. Other program participants include but are not limited to real estate agents and brokers, appraisers and inspectors, borrowers, mortgage brokers and third-party originators, closing agents, and title companies.

Bankers Mortgage Group is located in Woodland Hills, CA, and originates FHA-insured loans for underwriting by sponsoring lenders. According to the U.S. Department of Housing and Urban Development's (HUD) Neighborhood Watch system¹, Bankers Mortgage Group received FHA approval as a loan correspondent in April 1994. HUD revised its procedures in 2011 and stopped accepting applications for approval of loan correspondents. HUD now refers to loan correspondents as sponsored third-party originators. As a third-party originator, Bankers Mortgage Group still maintains its loan origination functions but no longer obtains HUD approval as a loan correspondent. However, Bankers Mortgage Group must still be sponsored by a HUD-approved lender for loan underwriting purposes. Bankers Mortgage Group closed 21 FHA-insured loans between July 2009 and September 2011.

Bankers Mortgage Group currently maintains the services of a local quality control contractor. However, HUD views the loan sponsor as the responsible party for quality control of its third-party originators. Therefore, our report does not include an assessment of the quality control contractor's review of FHA loans originated by Bankers Mortgage Group, nor does it include a review of the sponsoring lender's controls.

¹ Neighborhood Watch is a system that aids HUD/FHA staff in monitoring lender progress and performance. The system also aids lenders and the public in self-policing the industry.

Our objective was to determine whether Bankers Mortgage Group used sufficient, reliable, and valid documentation to originate its FHA loans.

RESULTS OF AUDIT

Finding: Bankers Mortgage Group Did Not Originate Loans That Complied With HUD-FHA Loan Documentation Requirements

Bankers Mortgage Group did not use sufficient, reliable, and valid documentation to originate its FHA-insured loans. Nine of ten loans reviewed contained deficiencies that were significant enough to impact the insurability of the loan. This noncompliance occurred because the lender disregarded FHA requirements pertaining to the origination of FHA loans and associated penalties for originating loans with false documentation. As a result, borrowers were qualified based on false and questionable documentation, putting the FHA fund at risk for losses totaling more than \$1.5 million.

Nine Loan Files Contained Significant Deficiencies

Our review identified nine loans with significant deficiencies including six loans with false and questionable income documentation. Nine loans reviewed had insufficient sourcing of borrower deposits and failed to document the transfer of gift funds between donors and borrowers. HUD Handbook 4155.1 details the requirements for documenting borrowers' income, verifying borrowers' earnest money deposits, and documenting the transfer of gift funds (see appendix C). Bankers Mortgage Group originated loans that did not comply with the requirements set forth in the handbook.

The table below lists the 10 FHA loan numbers reviewed and deficiencies associated with each loan. The table also includes the nine loans that had significant deficiencies and, therefore, warranted indemnification. Detailed narratives for each loan with significant deficiencies are contained in appendix E of the report.

Schedule of loan deficiencies						
		Deficiencies				
	FHA loan number	Income	Assets	False documents	Significant deficiencies	No deficiencies
1	197-4525510 ²	X	X	X	X	
2	197-4249639 ³	X	X	X	X	
3	197-4382913					X
4	197-4639800		X		X	
5	197-4454618	X	X		X	
6	197-4173899	X	X		X	
7	197-4725331		X		X	
8	197-5237865		X		X	
9	197-4598615	X	X		X	
10	045-7422057	X	X		X	
		6	9	2	9	1

Income

Six of the nine loans with significant income deficiencies included one of two loans in our sample that were originated with false documentation. The other five loans had income documents that were questionable.

HUD 4155.1 requires the lender to obtain a verification of employment and the borrower's most recent pay stub showing year-to-date earnings of at least one month. For FHA loan no. 197-4249639, the employer told us that the pay stubs we found in the file for the borrower were not issued by his company. The employer provided the actual pay stubs, which showed that the borrower was an hourly, not a salaried, employee as shown on the pay stubs in the file. In addition, the employer told us that the signature on the borrower's verification of employment did not belong to him. The income from the pay stubs in the file was \$2,641 per month and was used to qualify the borrower. However, State of California wage information, which agreed with the amounts on the actual pay stubs furnished to us by the employer, showed that the borrower earned \$20,385 per year, or an average of \$1,699 per month. Therefore, the borrower's income was overstated and based on false income information. We attempted to verify employment for the five loans with questionable income documentation. However, the employers were nonresponsive and would not verify employment. We also found discrepancies in the income documentation. FHA Loan No. 197-

² The purchase loan was terminated due to a refinance (FHA loan no. 197-5157630). However, the refinance would not have occurred without the improper origination of the purchase loan. Therefore, we recommend indemnification of the refinanced loan.

³ The purchase loan was terminated due to a refinance (FHA loan no. 197-5157291). However, the refinance would not have occurred without the improper origination of the purchase loan. Therefore, we recommend indemnification of the refinanced loan.

4525510, contained income that could not be verified with the State of California. Loan file documentation showed that repeated attempts were made to obtain the borrower's pay stubs. However, the pay stubs were not provided until two months after the borrower's employer signed the VOE. We made several attempts to verify the borrower's employment. However, employees working at the location stated they were unfamiliar with the manager/owner and gave conflicting information about when the manager/owner reported for work. FHA loan no. 197-4454618 contained verifications of employment from two different employers with the same pay information (date of employment, job title, and year-to-date pay). Two loans in our sample shared the same employer (FHA loan nos. 197-4173899 and 045-7422057), yet the verifications of employment and pay stubs in the borrowers' loan files were completely different and had different employer signatures. In addition, no wages were reported to the State of California for one of the borrowers. One borrower (FHA loan no. 197-4598615) told us that he worked at his place of employment, and was routinely compensated in cash. However, his manager issued pay stubs to assist him in obtaining his loan. No wages were reported to the State of California for the borrower.

Assets

All nine loans with significant deficiencies did not have sufficient source documentation to support gift funds and earnest money deposits. Three loans lacked both the necessary source documentation for gifts provided by donors and borrowers' earnest money deposits. The remaining six loans lacked either source documentation for gift funds or borrowers' earnest money deposits.

HUD Handbook 4155.1 states that the lender must document the transfer of gifts between the borrower and the donor and must obtain the appropriate source documents to show that the funds came from the donor's account and, when applicable, were deposited into the borrower's account (see appendix C).

For example, two loan files (FHA loan nos. 197-4525510 and 197-4249639) contained gift letters, donor bank statements, copies of cashier's checks, and receipts. However, the bank statement did not evidence the donor's withdrawal of funds. We learned that the bank statements, which had been altered to reflect the names of fictitious donors, actually belonged to the loan officer for this loan, who was also the president and owner of Bankers Mortgage Group. In addition, FHA loan no. 197-4249639 included a pay stub as support for a second gift. The last four digits of the donor's Social Security number were identical to those of the borrower.

HUD Handbook 4155.1 also requires the lender to verify with documentation the deposit amount and source of funds for earnest money deposits. Satisfactory documentation includes a copy of the borrower's cancelled check, a certification from the deposit holder acknowledging receipt of funds, and separate evidence of

the source of funds. Evidence of source of funds includes a verification of deposit or bank statement showing that the average balance in the borrower's account was sufficient to cover the amount of his or her earnest money deposit at the time of deposit (see appendix C).

FHA loan no. 197-4249639 included a borrower who provided a copy of a bank statement evidencing an account that he shared with his mother, who was also a gift donor. Of the \$7,694 earnest money deposit, \$2,500 was supported with adequate documentation. However, the remaining \$5,194, which was wire transferred to the escrow company, was not supported by documentation showing that the borrower had sufficient funds to cover the deposit at the time it was made. Another loan (FHA loan no. 197-4454618) had a bank statement in the file from August 2009. However, the borrower's earnest money deposit took place in October 2009, and a copy of the borrower's canceled checks or other satisfactory documentation was not included in the loan file.

False and Questionable Loan Documentation Increased Risk of Loss to the FHA Insurance Fund

Because the lender did not exercise due care and disregarded HUD requirements, it originated nine loans that had significant deficiencies, including false and questionable income and asset documentation. According to Neighborhood Watch, a preforeclosure sale was recently completed for one of the loans, and HUD paid a claim and experienced a loss of \$58,704. A second loan also went into foreclosure, and a third was reinstated by the borrowers without loss mitigation after several months of delinquencies and repayments. The loan officer certified that loan information submitted for each borrower was true and correct. However, we found false documentation for two loans and questionable documentation for the remaining seven. Given that the supporting gift documentation for two loans in our sample was false, we had no assurance that the gifts for the remaining loans come from an appropriate source or interested party. In addition, loans originated with income documents that cannot be verified with the employer and contain inaccurate and inconsistent pay information are suspect and impact the integrity of the loan. Besides HUD-FHA requirements, Bankers Mortgage Group must also comply with the terms of its agreements with loan sponsors. One of the agreements requires Bankers Mortgage Group to originate loans that are consistent with prudent underwriting standards. In addition, the loans must contain genuine documents, and all representations with respect to the application must be true.

Conclusion

The sponsoring lender relied on the loan information supplied by Bankers Mortgage Group and certified to the integrity of the data used to determine the quality of the loan. Therefore, Bankers Mortgage Group's noncompliance with HUD-FHA requirements affected the integrity of the loan process and information entered in the automated underwriting system. The noncompliance occurred because Bankers Mortgage Group disregarded requirements pertaining to the required documentation for FHA loans. As a result, 9 of 10 loans reviewed were not supported with adequate income and asset documentation. These loans had a total unpaid mortgage balance of more than \$2.3 million, with estimated potential losses to HUD of more than \$1.5 million for eight loans and an actual loss of \$58,704 for one loan (see appendixes A and D).

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing require Bankers Mortgage Group or other responsible lender to:

- 1A. Indemnify HUD against potential losses associated with eight FHA-insured loans with significant deficiencies in the amount of \$1,521,014 (see appendix D).
- 1B. Reimburse the FHA insurance fund \$58,704 for the loss associated with one loan with significant deficiencies.

We recommend that the Deputy Assistant Secretary for Single Family Housing:

- 1C. Require HUD QAD to perform a review of any remaining FHA insured loans originated by Bankers Mortgage Group, and take appropriate action based on the results of the review.
- 1D. Refer Bankers Mortgage Group to the Mortgagee Review Board to take appropriate administrative action against the principal(s) of Bankers Mortgage Group for originating FHA-insured loans with false or questionable documentation, up to and including debarment.

In addition, we recommend that HUD's Associate General Counsel for Program Enforcement:

- 1E. Determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act (31 U.S.C (United States Code) 3801-3812), civil money penalties (24 CFR (Code of Federal Regulations) 30.35), or both against Bankers Mortgage Group, its principals, or both for certifying to the truthfulness and correctness of false

or questionable loan information and that due diligence was exercised during the origination of nine loans that resulted in a loss to HUD of \$58,704 and potential losses of \$1,521,014 for a total loss of \$1,579,718, which could result in affirmative civil enforcement action.

SCOPE AND METHODOLOGY

Our audit period covered loans that were closed between July 2009 and September 2011. We selected Bankers Mortgage Group because of a referral from Office of Inspector General (OIG), Office of Investigation, stating that the lender had recently originated loans using false documentation. We conducted our fieldwork at the Bankers Mortgage Group office located in Woodland Hills, CA, between October 2011 and March 2012.

We used HUD's Neighborhood Watch and Single Family Data Warehouse⁴ systems to identify all FHA-insured loans that were originated by Bankers Mortgage Group. During the audit period, Bankers Mortgage Group originated 21 FHA-insured loans. We nonstatistically selected a sample of 10 FHA-insured loans based on the following considerations:

- Loans that were alleged to have been originated using false documents (two loans),
- Loans that were delinquent or in foreclosure status (three loans),
- Loans that had no wages reported to the State of California (two loans),
- Loans with questionable verifications of employment and pay stubs (one loan),
- Loans with excessive ratios (one loan), and
- Loans with inadequate gift documentation (one loan).

We did not perform an in depth review of Bankers Mortgage Group's quality control function, as HUD requires the sponsoring lender to maintain a quality control plan but does not require this from its third-party originators. Therefore, our report does not include an assessment of Bankers Mortgage Group's quality controls, nor did we review the sponsoring lender's quality control plans.

To accomplish our objective, we

- Reviewed HUD handbooks and reference materials related to single-family requirements,
- Reviewed 10 of Bankers Mortgage Group's FHA-insured loan files,
- Interviewed pertinent management and staff,
- Performed employer verifications,

⁴ Single Family Data Warehouse is a large collection of database tables organized and dedicated to support analysis, verification, and publication of FHA Single Family Housing data.

- Interviewed borrowers when available, and
- Reviewed escrow company records.

All loans in our sample were underwritten by an automated underwriting system. We primarily used the lender's loan origination files to determine borrowers' income, employment history, assets, and liabilities. In addition, we reviewed the FHA and loan origination files to determine whether they contained documentation to support the integrity and accuracy of the data used by the automated underwriting system to recommend approval of the loan.

We used data maintained by HUD in Neighborhood Watch primarily to obtain status information on originated loans. We also obtained a count of loans originated by Bankers Mortgage Group from the Single Family Data Warehouse. Since we did not rely on data produced by these systems to reach our conclusions, we did not assess the reliability of the data.

We also used wage and salary information produced by the State of California to determine whether the income included in the borrowers' loan documents was consistent with the State's information. We relied on this information to reach conclusions for loans in our sample. Therefore, we performed a test of the data validity by comparing wages reported for a 1-year period by the State to income on pay stubs that were provided to us by an employer of one of the borrowers in our sample. The income on the pay stubs agreed with the income reported by the State of California. Therefore, the information was reliable for our use during our review.

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. 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:

- Policies and procedures intended to ensure that loan originations comply with HUD-FHA documentation requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operations of a control does not allow management or employees, in the normal course of performing their assignment 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 Deficiencies

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

- The lender did not have adequate controls to reasonably ensure that loans were originated with valid and reliable income and asset documentation, in accordance with HUD-FHA requirements (finding 1).

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		\$1,521,014
1B	\$58,704	

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowed by law; contract; or Federal, State, or local policies or regulations. The ineligible amount is the claim paid by HUD after completion of a preforeclosure sale for FHA loan no. 197-4454618.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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. If HUD implements our recommendations to indemnify loans not approved in accordance with HUD-FHA requirements, it will reduce FHA's risk of loss to the insurance fund. The amount noted reflects HUD's calculation that FHA loses an average of 66 percent of the unpaid principal balance when it sells a foreclosed-upon property (see the estimated loss to HUD in appendix D). The 66 percent loss rate is based on HUD's Single Family Acquired Asset Management System's "case management profit and loss by acquisition" computation for the first quarter of fiscal year 2012 based on actual sales. Two of the eight unpaid principal balances in our sample are refinanced loans, as the original loans have been terminated. Since the original loans were deficient but recovery can no longer be made due to their status, we are seeking indemnification of the adjusted unpaid refinanced loan balances.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



21900 Burbank Boulevard
Suite 110, Warner Center
Woodland Hills, CA 91367-6409
(818) 348-0030

August 29, 2012

U. S. Department of Housing & Urban Development
Office of Inspector General for Audit (Region IX)
Attn: Ms. Tanya E. Schulze
Regional Inspector General for Audit
611 W. Sixth Street, Suite 1160
Los Angeles, CA 90017

Subject: Response to Draft Report
Bankers Mortgage Group
Woodland Hills, CA
Audit Report No. 2012-LA-100X

Dear Ms. Schulze:

Comment 1

This is in response to your draft report received on August 10, 2012 concerning the audit of my company, Bankers Mortgage Group, Inc. (BMG), conducted by your office. You indicated that my written response would be included in the final report issued in this matter. As explained below, I need an extension of 30 additional days in order to provide a comprehensive response to the draft report.

The issues raised in the draft report are extremely serious and are cause for great concern. As you may know, I have been in the mortgage business for more than 20 years. I take the responsibility of originating mortgages seriously and have endeavored to fully comply with HUD/FHA requirements. I have always enjoyed an excellent reputation with my sponsors and investors for originating high quality loans. My clientele is made up primarily of minorities who speak English as a second language. They are most often first time home buyers who are hard working and have non-traditional methods of handling their finances. I would never originate a loan knowing that the information submitted to me was untrue or incorrect. My goal is to help my clients to realize the American Dream of homeownership.

Comment 2

During the period of the origination of these ten loans, I was undergoing a series of personal crises in my life. My husband was terminally ill and two other close family members for whom I was the responsible caretaker were seriously ill. One passed away in September 2010 and the other two in 2011. Notwithstanding these personal challenges, I continued to operate my business attempting to balance my business with the health care needs of my close relatives.

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Comment 3

The relationships I form with my sponsoring lenders are critical in the conduct of my business. I have always cooperated with my sponsors in providing information and follow up before, during and after a loan funds and closes. Whenever questions have been raised, I have consistently responded expeditiously. In the ten loans at issue, the sponsoring lenders re-verified all of the income and asset information provided by the borrower(s) (to BMG) prior to funding the loans. This would have been done by performing a 411 check of the company, sending a fax or conducting a verbal (telephonic) re-verification of the employment and income information for each borrower. I am aware that the sponsors also verified W-2 and tax information through the Internal Revenue Service. These procedures were routinely followed and the results would have been retained in the sponsoring lender's files. In addition, the sponsors also performed a careful review of all gift funds with supporting documentation prior to funding a loan. I acknowledge that BMG's files also should have contained copies of this documentation and admit that BMG's loan files were incomplete.

Comment 4

Your draft report indicates that none of the sponsoring lender files were reviewed during the audit conducted by your office. I believe that if your audit had included a review of the sponsoring lenders' files that most, if not all, of the questions raised would have been answered to your satisfaction. I also note that during my HUD/FHA approval, which covered the period during which these ten files were originated, I contracted with a quality control firm to perform quality control reviews of ten percent of my loan files in accordance with HUD/FHA requirements. One of the loans included in your audit [REDACTED] - Case No. 197-4173899) was subject to quality control review by BMG's contractor and no issues were raised with the asset documentation during that review. In addition, BMG's sponsoring lenders also conducted quality control reviews of ten percent of loans originated by its approved loan correspondents (including BMG), as a part of their regular quality control program, as required by HUD/FHA.

Comment 5

My preliminary review to date of the information related to the ten transactions at issue supports my belief that the loans were and continue to be valid transactions. An additional 30 days is needed however, in order for me to fully explain and to address the issues raised in the draft report. With the exception of the [REDACTED] transaction, Case No. 197-4454618, which went into default and for which a claim was paid, all of the other loans are performing. In the [REDACTED] case, once I became aware that it had gone to default, I approached the lender about buying the loan back but was told that the loan had already been sold to an investor and not to concern myself about it. Indeed, the [REDACTED] loan is the only one of which I am aware that went to claim during all of my years in the business. I make every attempt to keep track of my borrowers and to counsel them about the importance of making timely mortgage payments.

* Names redacted for privacy reasons.

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Comment 6

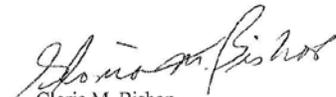
As I indicated to you during the close out meeting on August 17, 2012 in my office, I sincerely seek to provide a detailed response to your report and believe that most of the claims made against my company may be explained and resolved. My copies of the loan files were only returned to me on August 14, 2012 after the Department of Justice decided to defer the matter to HUD. Based upon my review of the files however, there are missing documents which are needed in order for me to respond to the allegations in your report. Despite my efforts to date, I have been unable to obtain copies of documents from my sponsoring lenders and the escrow companies in the ten transactions. I also have learned that one of the sponsoring lenders, America HomeKey, Inc. is no longer in business. I again reiterate my request for additional time to conduct my own investigation into the matters raised in order to provide a comprehensive response for inclusion in your report.

Comment 7

With regard to the recommendations and remedies sought in the report, including BMG's indemnification of the ten loans, I also request that implementation of these outcomes be delayed pending the granting of a 30 day extension of time to submit information to demonstrate satisfactory resolution of the issues.

I thank you for your consideration of this information, my request for the granting of 30 additional days to submit a detailed response, and for delaying the implementation of the remedies and recommendations sought in the draft report. Your favorable consideration of these requests is greatly appreciated.

Respectfully,


Gloria M. Bishop
President

OIG Evaluation of Auditee Comments

- Comment 1** OIG is unable to grant a 30 day-extension for further responses. However, Bankers Mortgage Group will have an opportunity to provide verbal and written responses to HUD during the audit resolution phase.
- Comment 2** We acknowledge that Bankers Mortgage has been in the mortgage business for more than 20 years and that crises occurred in Ms. Bishop’s personal life around the time period of the loan originations. However, nine of the ten loans originated by Bankers Mortgage in our sample contained significant deficiencies. These deficiencies included false or questionable income and asset documentation.
- Comment 3** OIG reviewed Bankers Mortgage Group loan files and corresponding FHA case files. The FHA case file represents loan documentation submitted to HUD and it includes loan information provided by both the loan originator and loan sponsor. We found various copies of sponsoring lenders’ re-verifications during our review, including telephonic re-verifications of employment, e-mails, and faxes. We also found copies of W-2s and IRS Forms 1040 in both sets of files. OIG performed on-site employment verifications and found there were irregularities in the borrowers’ paystubs and original verifications of employment. The employer for one loan in our sample (FHA Loan No. 197-4249639) told us that the borrower’s paystubs did not come from his company, and then supplied the actual paystubs that were issued by his company. In addition, the employer stated that the information on the borrower’s verification of employment was not supplied by him. Verifications of Employment for another loan (FHA Loan No. 197-4454618) were from two different employers, yet reflected identical job titles, dates of employment, and year-to-date pay for the borrower. The telephonic verification that we found in the FHA case file was incomplete, as it showed the loan sponsor verified the borrower’s position and length of employment, but did not verify the borrower’s rate of pay and current base pay. In another instance, two borrowers were employed at different locations, but shared the same employer (FHA Loan Nos. 197-4173899 and 045-7422057). Although the borrowers had the same employer, their paystubs had different formatting and the employer’s signatures on the verifications of employment were different. We attempted to verify the borrowers’ employment at each location, but the occupant at the first location refused to speak with us. We could not locate the employer at the second location, but he confirmed both borrowers’ employment by telephone. However, he refused to provide a signed Statement of Employment Verification. One borrower told us that his paystubs were fabricated (FHA Loan No. 197-4598615) to assist him in obtaining his loan and another borrower’s employer never contacted us despite several visits and telephone calls (FHA Loan No. 197-4525510). Borrowers for several of the foregoing loans had no wages reported to the State of California.

Files also lacked the necessary source documentation that was needed to completely document borrowers’ receipt of gifts from donors. HUD Handbook

4155.1 (see Appendix C) states that the lender must document the transfer of gifts between the borrower and donor and must obtain the appropriate source documents to show that the funds came from the donor's account, and, when applicable, were deposited into the borrower's account. Six loans lacked withdrawal documents or cancelled checks showing that gift funds actually came from the donors' accounts.

Comment 4 As stated in the report, Bankers Mortgage Group was selected for review in response to a referral from OIG's Office of Investigation. Therefore, it was not in the scope of the audit to perform a review of the sponsoring lender's files. In addition, we reviewed Bankers Mortgage Group's loan origination files and also reviewed the corresponding FHA case files, which would include information from the originating and sponsoring lenders. The lack of documentation that was present in the loan origination files was consistent with what we found in the FHA case file. We agree that an earlier quality control review conducted by Bankers Mortgage Group's quality control contractor found no issues with the asset documentation that was included with one loan in our sample, FHA Loan No. 197-4173899. However, as stated in our report, given that the supporting documentation for two loans in our sample was false, we had no assurance that the gifts for the remaining loans come from an appropriate source or interested party. FHA requires source documentation which shows that gift funds came from the purported donors, and those documents were not present in the files.

Comment 5 OIG is unable to grant a 30 day-extension for further responses. However, Bankers Mortgage Group will have an opportunity to provide verbal and written responses to HUD during the audit resolution phase.

FHA Loan No. 197-4454618 is the only loan in our audit sample that has gone into claim. However, we disagree with the auditee's statement that all other loans that we sampled are performing. FHA Loan No. 197-5237865 is currently in foreclosure and FHA Loan No. 197-4725331 was recently reinstated by the borrowers without loss mitigation after several months of delinquencies and repayments. Although the auditee indicated in the response that they attempted to buy back FHA Loan No. 197-4454618 after learning that it had defaulted, our review disclosed that the borrower's pay was overstated, and the borrower's verifications of employment appeared to have been altered. The auditee will need to address these issues with HUD during audit resolution.

Comment 6 We sent an electronic copy of the draft report to the auditee on August 7, 2012, and while we agree that that auditee's loan files were not returned until August 14, 2012, the auditee was still provided the standard 15-day response period, as we extended the response due date to August 29, 2012. We are unable to grant additional time for responses to the draft report. However, the auditee will have ample opportunity to provide HUD with verbal and written information during the audit resolution phase.

Comment 7 The recommendations in our report were made to HUD and other relevant parties. OIG is not the final authority on implementation of the recommendations. . The auditee will be able to address our recommendations and provide information to HUD to support its position during audit resolution.

Appendix C

CRITERIA

1. **HUD Handbook 4155.1, paragraph 1B(2)(f)**

(HUD Handbook 4155.1, REV-5, paragraph 3-1(E))

The lender must obtain the most recent pay stub showing year-to-date earnings of at least one month, and one of the following to verify current employment:

- a written VOE [verification of employment] verbal verification of employment, or
- electronic verification acceptable to FHA.

TOTAL Scorecard Accept/Approve Recommendation for Employment Verification:

The lender is required to verify the applicant's employment history for the previous two years.

However, direct verification is *not* required if *all* of the following conditions are met:

- the current employer confirms a two-year employment history (this may include a pay stub indicating a hiring date)
- the lender only uses base pay (no overtime or bonus pay) to qualify the borrower and
- the borrower signs Form IRS [Internal Revenue Service] 4506 or Form IRS 8821 for the previous two tax years.

Borrower Not Employed with Same Employer: If the borrower was not employed with the same employer for the previous two years, and/or the above conditions cannot be met, the lender must verify the most recent two years of employment history by obtaining:

- copies of [IRS] W-2s
- written VOEs, or
- electronic verification acceptable to FHA.

No explanation is required for gaps in employment of six months or less during the most recent two years.

2. **HUD Handbook 4155.1, paragraph 4D(1)(b)**

(HUD Handbook 4155.1, REV-5, section 2-6)

To be eligible for a mortgage, FHA does not require a minimum length of time that a borrower must have held a position of employment. However, the lender must verify the borrower's employment for the most recent two full years, and the borrower must explain any gaps in employment that span one or more months and indicate if he/she was in school or

the military for the most recent two full years, providing evidence supporting this claim such as college transcripts or discharge papers.

The TOTAL (Technology Open to All Lenders) Scorecard Accept recommendation does not require an explanation for gaps in employment of six months or less, during the most recent two years.

3. **HUD Handbook 4155.1, paragraph 4D(4)(d)**
(HUD Handbook 4155.1, paragraph 2-9(B))

Self employed borrowers must provide

- signed, dated individual tax returns, with all applicable tax schedules for the most recent two years
- for a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules
- a year-to-date profit and loss (P&L) statement and balance sheet, and
- a business credit report for corporations and “S” corporations.

TOTAL Scorecard Accept/Approve Recommendation

If the Technology Open To Approved Lenders (TOTAL) Scorecard returns an Accept/Approve recommendation, the borrower is not required to provide business tax returns if all of the following conditions are met:

- individual Federal income tax returns show increasing self employed income over the past two years
- funds to close are not coming from business accounts, and
- the proposed FHA-insured mortgage is not a cash out refinance.

Note: A business credit report for a corporation or “S” corporation is not required if the loan receives a TOTAL Scorecard Accept/Approve recommendation.

4. **HUD Handbook 4155.1, paragraph 4F(2)(b)**

The relationship of the mortgage payment to income is considered acceptable if the total mortgage payment does not exceed 31 percent of the gross effective income. A ratio exceeding 31 percent may be acceptable only if significant compensating factors, as discussed in HUD 4155.1.4.F.3, are documented and recorded on Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary.

5. **HUD Handbook 4155.1, paragraph 4F(2)(c)**

The relationship of total obligations to income is considered acceptable if the total mortgage payment and all recurring charges do not exceed 43 percent of the gross effective income. A ratio exceeding 43 percent may be acceptable only if significant compensating factors, as discussed in HUD 4155.1.4.F.3, are documented and recorded on the Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary.

6. **HUD Handbook 4155.1, paragraph 5B(2)(a)**
(HUD Handbook 4155.1, REV-5, paragraph 2-10(A))

The lender must verify and document the deposit amount and source of funds, if the amount of the earnest money deposit

- exceeds 2% of the sales price, or
- appears excessive based on the borrower's history of accumulating savings.

Satisfactory documentation includes

- a copy of the borrower's cancelled check
- certification from the deposit-holder acknowledging receipt of funds, or separate evidence of the source of funds.

Separate evidence includes a verification of deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

7. **HUD Handbook 4155.1, paragraph 5B(4)(d)**
(HUD Handbook 4155.1, REV-5, paragraph 2-10(C))

Regardless of when gift funds are made available to a borrower, the lender must be able to determine that the gift funds were not provided by an unacceptable source, and were the donor's own funds.

When the transfer occurs at closing, the lender is responsible for verifying that the closing agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

8. **HUD Handbook 4155.1, paragraph 5B(5)(b)**
(HUD Handbook 4155.1, REV-5, paragraph 2-10(C))

The lender must document the transfer of the gift funds from the donor to the borrower.

If the gift funds are in the borrower's account, then the lender must obtain a copy of the withdrawal document showing that the withdrawal is from the donor's account and the borrower's deposit slip and bank statement showing the deposit.

If the gift funds are to be provided at closing, and are in the form of a cashier's check, money order, official check, or other type of bank check, have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing that the funds came from the donor's personal account.

Appendix D

SCHEDULE OF ESTIMATED LOSSES FOR LOANS WITH SIGNIFICANT DEFICIENCIES

FHA loan number	Unpaid mortgage balance	Loss to HUD	Estimated loss to HUD (66%)
197-4525510 ⁵	\$356,637		\$235,380
197-4249639 ⁶	\$115,287		\$76,089
197-4639800	\$264,395		\$174,501
197-4454618		\$58,704	
197-4173899	\$354,726		\$234,119
197-4725331	\$333,403		\$220,046
197-5237865	\$332,828		\$219,667
197-4598615	\$259,406		\$171,208
045-7422057	287,884		\$190,004
	\$2,304,566	\$58,704	\$1,521,014

⁵ Purchase loan was refinanced. Unpaid mortgage amount and estimated loss to HUD are for the refinanced loan no. 197-5157630.

⁶ Purchase loan was refinanced. Unpaid mortgage amount and estimated loss to HUD are for the refinanced loan no. 197-5157291.

Appendix E

NARRATIVE LOAN SUMMARIES FOR SIGNIFICANT UNDERWRITING DEFICIENCIES

The following narratives provide the details for the significant underwriting deficiencies noted in the table in finding 1.

1. FHA loan number: 197-4525510 (FHA refinance loan no. 197-5157630)

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on two factors: (1) Bankers Mortgage Group used questionable pay stubs and verification of employment documentation to qualify the borrower for an FHA loan, and (2) Bankers Mortgage Group did not properly document the transfer of gift funds between the donor and the borrower. In addition, bank statements that were provided to support the donor's gift were false.

Income

OIG could not verify the employment that was included on the borrower's loan application and verification of employment. No wages were reported to the State of California for the borrower. The employer signed the borrower's verification of employment in August 2009, yet the loan and escrow files showed that pay stubs and other supporting income documents were not furnished until October 2009. Further, these documents were provided only after repeated attempts by the sponsoring lender to obtain the information. We visited the employer's location on two occasions to verify the pay information in the file. We also left voicemail messages and business cards for the owner to contact us. The owner did not contact us, and employees working at the location told us they were not familiar with the borrower's employer and provided us with conflicting information about when we could speak with the employer to verify employment.

Assets

Contrary to HUD Handbook 4155.1, REV-5, paragraph 2-10(C), Bankers Mortgage Group did not obtain the required documentation supporting the transfer of gift funds of \$6,000 from the borrower's sister (see HUD Handbook 4155.1, REV-5, paragraph 2-10(C)(2)(b), in appendix C). The loan file did not contain a withdrawal slip or cancelled check for the amount of the gift, which would verify that the funds came from the donor's personal account. We found a copy of the donor's bank statement in the Bankers Mortgage Group loan and FHA case files. However, the statement did not evidence withdrawal of the \$6,000 gift, as only the first page of the statement was present. We obtained a copy of the front side of the \$6,000 cashier's check and a receipt from the escrow company. However, this was also insufficient and did not demonstrate that the funds came directly from the donor's account. We learned that the bank statement supporting the \$6,000 gift belonged to the president and

owner of Bankers Mortgage Group and was altered to reflect the name of the gift donor. Therefore, the documentation provided to support the \$6,000 gift was false.

2. FHA loan number: 197-4249639 (FHA refinance loan no. 197-5157291)

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on two factors: (1) Bankers Mortgage Group used falsified pay stubs and verification of employment documentation to qualify the borrower for an FHA loan, and (2) Bankers Mortgage Group did not properly document the transfer of gift funds that were used as the borrower's cash investment in the property.

Income

Pay stubs and verification of employment documentation in the Bankers Mortgage Group loan file and submitted as part of the borrower's loan package were false. We contacted the borrower's employer, who verified that the copies of the pay stubs were not issued by his company and the information on the verification of employment was not completed by him. The owner provided copies of the pay stubs issued by his company for the same period. The pay stubs provided by the owner showed that the borrower was an hourly rather than a salaried employee, who earned \$2,641 per month, as reflected on the false pay stubs. The false pay stubs showed a 2-week pay period rather than a weekly pay period, as shown on the pay stubs provided by the owner. Finally, the pay stubs provided by the owner showed that the borrower received overtime pay, while the false pay stubs did not. The owner stated that with the exception of the signature on the verification of employment form, the handwriting on the form did not belong to him. He also stated that he had never seen the form before and some of the information was not accurate, including that the borrower was a salaried employee.

The borrower's earnings were overstated by \$942, or \$11,307 annually, because they were determined based on false pay stubs and a false verification of employment form. According to the State of California wage information and pay stubs provided by the owner for a period of 3 months, the borrower earned a total of \$20,385 for calendar year 2009, or an average of \$1,699 per month.

Assets

Contrary to HUD Handbook 4155.1, REV-5, paragraph 2-10(C), Bankers Mortgage Group did not obtain the required documentation supporting the transfer of gift funds totaling \$15,338 from the borrower's mother and aunt (see HUD Handbook 4155.1, REV-5, paragraph 2-10(C)(2)b), in appendix C). The mother of the borrower supposedly gifted him \$4,838. However, there was no withdrawal document or canceled check in the file to clearly show the transfer of the gift. The file contained a letter from the borrower stating that he shared a bank account with his mother and that although she made small deposits of her own, most of the money in the account belonged to the borrower. The mother's pay stubs were found in the

Bankers Mortgage Group file for the periods March 26 through April 1, 2009, and April 23 through April 29, 2009, and were used to support that she was depositing funds into the account. However, the pay stubs appeared to have been falsified, as the last four digits of the mother's Social Security number were identical to the borrower's Social Security number. Therefore, the mother may not have had the income to gift her son \$4,838.

A copy of the front side of a cashier's check and a withdrawal document for \$10,500 was in the Bankers Mortgage Group file and provided as evidence of the aunt's transfer of funds. A copy of the aunt's bank statement with the same account number shown on the withdrawal slip was also included in the file. However, the account number belonged to the president and owner of Bankers Mortgage Group. With the exception of the name and address block, the bank statement that supposedly belonged to the borrower's aunt was identical in every respect to the president and owner's personal bank statement. Also, the cashier's check showed the signature of the president and owner of Bankers Mortgage Group. Therefore, the aunt did not gift the borrower \$10,500, and those funds actually came from the president and owner of Bankers Mortgage Group's personal account.

Bankers Mortgage Group did not adequately verify the borrower's earnest money deposit of \$7,694 as required by HUD (see HUD Handbook 4155.1, REV-5, paragraph 2-10(A), in appendix C). The file contained satisfactory documentation to support \$2,500 of the total earnest money deposit; however, it did not contain documentation for the remaining \$5,194. The file contained the borrower's most recent bank statement showing that he had an available balance of \$5,226 as of May 18, 2009. However, the deposit was wire transferred to the escrow company on July 7, 2009, and the criteria require documentation showing that the borrower had sufficient funds to cover the deposit at the time it was made. A copy of the front side of the check and a receipt for \$5,194 was found in the escrow file.

3. **FHA loan number:** 197-4639800

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on Bankers Mortgage Group's failure to properly document the transfer of gift funds that were used as the borrower's cash investment in the property.

Assets

Bankers Mortgage Group did not meet HUD requirements by failing to obtain the required documentation supporting the transfer of gift funds totaling \$10,000 from the borrower's father (see HUD Handbook 4155.1, REV-5, paragraph 2-10(C)(2)(b)). A copy of the front side of the donor's cashier's check for \$10,000 and the escrow receipt was found in the escrow file. However, neither Bankers Mortgage Group nor the escrow company had copies of the withdrawal document or canceled check for the amount of the gift; therefore, it was not properly documented, and the source of the gift was not completely verified.

4. FHA loan number: 197-4454618

Loan status: Claim

Requesting indemnification: Yes

Default status: Preforeclosure sale completed

We are seeking indemnification based on two factors: (1) Bankers Mortgage Group originated the loan based on questionable income documentation and overstated the borrower's monthly income by \$1,475 per month, or \$17,695 for the year, and (2) Bankers Mortgage Group did not adequately verify the borrower's earnest money deposit of \$21,892.

Income

Bankers Mortgage Group overstated the monthly income for the borrower by \$1,475 per month. The verification of employment showed that the borrower received a monthly income of \$2,569; however, Bankers Mortgage Group used \$5,138 per month, or double the monthly income, as the borrower's base pay. We determined that the borrower's monthly income was \$3,633 for the year 2009 based on State of California wage information. OIG also verified with the borrower that he worked 40 hours per week at a rate of \$27 to \$30 per hour. This amount equated to a base pay of about \$4,800 per month.

The borrower's verifications of employment in the Bankers Mortgage Group and FHA files appeared to be questionable. The first verification for the borrower's current employer had the borrower's last name scratched out. The second verification was almost identical to the first one but included a last name that belonged to someone other than the borrower and was signed by the vice president of the company. The third verification was completed by the borrower's previous employer, while the fourth verification, which was also supposed to be from the borrower's previous employer, had a mix of information from the borrower's previous and current employers. In addition, the dates of employment, job title, and year-to-date base pay from the fourth verification of employment were identical to that found in the first one. The loan processor explained that her assistant accidentally faxed the previous employer's completed verification to the current employer. The vice president of the current employer then completed part of the verification and faxed it back to Bankers Mortgage Group. This explanation was not reasonable since a completed section of the verification had not been completed in the copy that was incorrectly filled out by the current employer. Further, if the verification had been completed by the vice president, the handwriting on this verification should have matched the handwriting on the correct verification, also completed by the vice president. The fourth verification also addressed the borrower's name in the remarks section.

Assets

Bankers Mortgage Group did not comply with HUD requirements by failing to verify the borrower's earnest money deposit of \$21,892 (HUD Handbook 4155.1, REV-5, paragraph 2-10(A)). The Bankers Mortgage Group file contained a bank statement for the borrower through August 2009, showing an available balance of \$39,746. However, it did not contain a bank statement for the borrower at the time of the deposit in October of 2009. It also did not

include a copy of the borrower's canceled checks or other satisfactory documentation in the file. The escrow company's file contained only a copy of the front side of the checks and the receipt of deposit.

5. FHA loan number: 197-4173899

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on two factors: (1) Bankers Mortgage Group used questionable pay stubs and verification of employment documentation to qualify the borrower for an FHA loan, and (2) Bankers Mortgage Group did not properly verify the borrower's earnest money deposit.

Income

The borrower's pay stubs appeared questionable. They showed a consistent biweekly income of \$3,225, or \$6,987 per month. However, the borrower stated that he was paid about \$4,000 in cash per month, and this amount could vary. The borrower could not give a definite answer as to whether the pay stubs belonged to him. In addition, the format did not match the format of a pay stub belonging to another borrower who worked at the same place of employment (see FHA loan no. 045-7422057).

The borrower's verification of employment supported that the borrower received a monthly income of \$6,450. However, the handwriting and signature of the owner on the borrower's verification was not consistent with the handwriting and signature on the verification for the other borrower. Further, no wages were reported to the State of California. The borrower stated that he had worked for the company for the last 5 to 6 years. This information was not consistent with the information on the verification of employment, which showed that he began working on January 1, 2009. The borrower was unable to explain the discrepancy in information.

We performed three site visits and were unsuccessful in speaking with the owner of the company. The employment address belonged to a home that was inhabited by a woman instead of a man according to a neighbor. We contacted the owner by phone, and he verbally acknowledged that both of the borrowers worked for him; however, as of April 5, 2011, the owner had not returned a completed statement of employer verification form for either borrower.

The coborrower had a gap of employment of more than 1 year (July 9, 2008, to August 6, 2009) within the 2 years since the loan closed. However, the file did not contain an explanation for the employment gap spanning 1 month or more as required by HUD (see HUD Handbook 4155.1, REV-5, paragraph 2-6, in appendix C).

Assets

Bankers Mortgage Group did not meet HUD requirements by failing to verify the borrower's earnest money deposit of \$13,233 since it exceeded 2 percent of the sales price of the property (see HUD Handbook 4155.1, REV-5, paragraph 2-10(A), in appendix C). Satisfactory documentation was in the file to support \$5,000 of the earnest money deposit. The file did not contain documentation to support the remaining \$8,233. A copy of the borrower's most recent bank statement was dated August 21, 2009, and showed that he had sufficient funds in his accounts to cover the remaining deposit. However, \$200 was received by the escrow company on November 18, 2009, and the remaining \$8,033 was received on November 10, 2009. HUD Handbook 4155.1, REV-5, paragraph 2-10(A), requires that the documentation show sufficient funds to cover the deposit at the time it was made.

6. **FHA loan number:** 197-4725331

Loan status: Active

Requesting indemnification: Yes

Default status: Repayment

We are seeking indemnification based on Bankers Mortgage Group's failure to properly document the transfer of gift funds that were used as the borrower's cash investment in the property.

Assets

Bankers Mortgage Group did not comply with HUD requirements by failing to obtain the required documentation to support the transfer of gift funds totaling \$10,000 from the borrower's uncle (see HUD Handbook 4155.1, REV-5, paragraph 2-10 (C), in (appendix C)).

The loan file contained a copy of a gift letter stating that the borrower's uncle would provide a \$10,000 gift toward purchase of the property. A copy of the donor's bank statement had some of the donor's account numbers blocked out, making them unidentifiable. The bank statement did not contain withdrawals for the uncle's \$10,000 gift. Escrow company records contained a copy of the front side of the donor's cashier's check and the escrow receipt. However, neither Bankers Mortgage Group nor the escrow company had copies of the withdrawal document or canceled check for the amount of the gift; therefore, the gift was not properly documented, and the source of the gift was not completely verified.

Bankers Mortgage Group also did not comply with HUD requirements when verifying the borrowers' earnest money deposit.

The borrowers deposited a total of \$12,269 in earnest money. The loan file contained a copy of the borrowers' check for \$5,000, accompanied by a receipt from the escrow company and bank statement showing the withdrawal of the \$5,000. However, there was no bank statement in the file at the time of deposit of the \$7,269. We found a copy of a wire transfer and a receipt for the \$7,269 in the escrow company file. However, it did not comply with HUD Handbook 4155.1, REV-5, paragraph 2-10(A), which requires evidence of the source of funds showing that the borrowers' average balance was sufficient to cover the amount of the earnest money deposit at the time of deposit.

7. FHA loan number: 197-5237865

Loan status: Active

Requesting indemnification: Yes

Default status: Delinquent

We are seeking indemnification based on Bankers Mortgage Group's failure to document the transfer of gift funds that were used as the borrower's cash investment in the property.

Assets

Contrary to HUD Handbook 4155.1, paragraph 5B(5)(b), Bankers Mortgage Group did not obtain the required documentation supporting the transfer of gift funds totaling \$17,900 from the borrower's uncle (see HUD Handbook 4155.1, paragraph 5B(5)(b), in appendix C). The borrower received \$17,900 in three checks from her uncle. A copy of the uncle's bank statement showed that check #102 was issued for \$5,000 on October 12, 2010, while the borrower's bank statement showed a deposit of \$5,000 on October 12, 2010. Check #103 for \$10,000 and check #104 for \$2,900 were supported by the borrower's bank statement. However, a copy of the withdrawal document and the borrower's deposit slip was not in the file for all three checks. Therefore, the transfer of gift funds was not properly documented.

8. FHA loan number: 197-4598615

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on Bankers Mortgage Group's use of potentially false pay stubs and verification of employment documentation to qualify the borrower for an FHA loan.

Income

The borrower's pay stubs and verification of employment documentation that were in the Bankers Mortgage Group file and submitted as part of the borrower's loan package were likely falsified. We contacted the borrower's employer and spoke with the owner. The owner verified that the borrower worked a total of 35-48 hours per week at a rate of \$20 per hour, which equates to a base pay of \$700-\$960 per week, or \$3,033-\$4,160 per month. This information was not consistent with the information on the pay stub and verification of employment, which showed that the borrower was a salaried employee who made \$3,280 per month. Although the employer partially completed the OIG verification of employment form, he would not return a signed copy despite our attempts in asking for it. When we spoke with the borrower, he claimed that he worked only 40 hours per week and made approximately \$140 to \$150 per day. He also stated that the owner issued the pay stubs to help him get his loan. Further, no wages were reported to the State of California for the borrower.

Assets

The borrowers' earnest money deposit was not adequately verified as required by HUD Handbook 4155.1, REV-5, paragraph 2-10(A). The file contained satisfactory documentation to support the initial \$3,000 deposited by one of the borrowers. However, the remaining \$10,120 did not have support to show that the borrower had sufficient funds to cover the earnest money deposit at the time of deposit. The borrower's bank statement was for the period November 7-December 7, 2009 and showed a balance of \$325. We obtained copies of the front sides of cashier's checks, escrow receipts, and a wire transfer from the escrow company. However, \$830.27 was deposited with the escrow company on December 30, 2009, and \$9,290 was deposited on January 4, 2010. The bank statement did not support the deposits at the time they were made.

9. FHA loan number: 045-7422057

Loan status: Active

Requesting indemnification: Yes

Default status: N/A

We are seeking indemnification based on two factors: (1) Bankers Mortgage Group did not adequately verify that the borrower was employed at the time of the loan application, and (2) Bankers Mortgage Group did not properly document the transfer of gift funds that were used as the borrower's cash investment in the property.

Income

Bankers Mortgage Group should have questioned the borrower's verification of employment documentation. The borrower worked at the same place of employment as another borrower in our sample (FHA loan no. 197-4173899). The handwriting and signatures of the owner on both verifications of employment were not identical, although the owner name and company were the same. The format of the two pay stubs was also dissimilar and reflected different employment addresses. We performed a site visit to the employer locations in Sylmar and Bakersfield, CA. The Sylmar location belonged to a residential address of a female realtor who refused to speak with us. Her neighbors had never heard of the company name. The Bakersfield location also belonged to a residential address; however, the resident of the house stated that the owner of the company did not live there. We contacted the owner by phone and requested that he complete a verification of employment for the two borrowers in our sample. He had not returned the verification of employment despite several follow-up calls.

Assets

Contrary to HUD Handbook 4155.1, paragraph 5B(5)(b), Bankers Mortgage Group did not obtain the required documentation supporting the transfer of gift funds totaling \$16,613 from the borrower's father (see HUD Handbook 4155.1, paragraph 5B(5)(b), in appendix C). Of the \$16,613 in gift funds, Bankers Mortgage Group's file contained a copy of the donor's bank statement showing the image of the canceled check, dated June 2011, issued to the borrower for \$3,000. The Bankers Mortgage Group file did not contain copies of the withdrawal document or canceled checks for the remaining \$13,613 in gift funds.

Bankers Mortgage Group did not adequately verify the borrower's earnest money deposit of \$15,613 as required by HUD (see HUD Handbook 4155.1, paragraph 5B(2)(a), in appendix C). The file contained satisfactory documentation for \$5,000; however, it did not have the documentation for the remaining \$10,613 of the earnest money deposit. The borrower's bank statement as of August 23, 2011, showed a balance of \$8,214. This amount was insufficient to cover the remaining \$10,613 in deposits. However, the escrow company's file contained copies of the front side of the check or cashier's check and certification from the bond holder acknowledging receipt of funds for the remaining \$10,613 in funds.