U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

August 20, 2013

Mark A. Nickel
Chief Executive Officer
The Lending Company, Inc.
6910 East Chauncey Lane, Suite 220
Phoenix, AZ 85054

Dear Mr. Nickel:

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of The Lending Company's participation in the Federal Housing Administration's (FHA) Section 203(b) Mortgage Insurance Program. If you have any questions, please contact me at (213) 534-2471 or Martin D. Herrera, Assistant Regional Inspector General for Audit, at (602) 379-7243.

Sincerely,

Tanya E Schulze

Tanya E. Schulze
Regional Inspector General for Audit

Enclosure

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The Lending Company, Inc.
Phoenix, AZ

Single Family Housing Mortgage Insurance Program

Issue Date: August 20, 2013

Audit Report Number: 2013-LA-1008

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: The Lending Company, Inc., Phoenix, AZ, Did Not Always Comply With FHA Underwriting and Quality Control Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of The Lending Company, Inc.'s loan origination, underwriting, and quality control program policies and procedures.

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 213-894-8016.

August 20, 2013

The Lending Company, Inc., Phoenix, AZ, Did Not Always Comply With FHA Underwriting and Quality Control Program Requirements

Highlights

Audit Report 2013-LA-1008

What We Audited and Why

We audited The Lending Company, Inc., based on a hotline complaint, previous U.S. Department of Housing and Urban Development (HUD) reviews, and our goal to improve the integrity of the Federal Housing Administration (FHA) single-family insurance programs. Our objectives were to determine whether The Lending Company complied with HUD requirements when it used gift programs, originated and underwrote FHA loans, and implemented its quality control functions.

What We Recommend

We recommend that HUD determine legal sufficiency to pursue civil remedies, civil money penalties, or both against The Lending Company for incorrectly certifying that mortgages were eligible for FHA mortgage insurance. We also recommend that HUD require the lender to (1) indemnify HUD against losses for 725 FHA-insured loans with unallowable gifts, (2) reimburse the FHA insurance fund for $706,042 in actual losses, (3) support or repay loss mitigation claims paid, (4) pay down the principal balance for 1 overinsured loan, (5) implement its quality control plan, and (6) provide training to its staff on HUD quality control requirements.

What We Found

The hotline complaint alleged various lending violations. Our review substantiated the portion of the hotline complaint concerning violations of the Housing and Economic Recovery Act of 2008. The Lending Company used gift programs through two nonprofit organizations that did not comply with HUD's requirements. It approved 789 FHA-insured loans that contained unallowable gifts. This occurred because The Lending Company was initially unaware of the HUD requirements, was notified of the requirements, and then structured a second gift program that disregarded those same HUD requirements. As a result, 725 loans put the FHA mortgage insurance fund at risk for losses of $55.4 million, and has already incurred losses of $284,412 for 7 loans.

Further, The Lending Company did not always originate and approve FHA-insured loans in accordance with HUD requirements. Specifically, 28 of the 31 loans reviewed contained underwriting deficiencies, with 9 containing material underwriting deficiencies that impacted the insurability of the loans. This occurred because The Lending Company did not exercise due diligence in underwriting the loans and disregarded HUD's underwriting requirements. As a result, HUD incurred losses of $421,630 for five loans. The remaining four loans with material underwriting deficiencies also had an unallowable gift.

Lastly, The Lending Company did not always follow HUD quality control requirements. This occurred because The Lending Company disregarded HUD requirements, although a prior HUD review identified similar deficiencies. As a result, the FHA mortgage insurance fund was placed at an increased risk for losses.

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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 is the largest insurer of mortgages in the world, having insured more than 34 million properties since its inception. The U.S. Department of Housing and Urban Development's (HUD) direct endorsement program simplified the process for obtaining FHA mortgage insurance by allowing lenders to underwrite and close mortgage loans without prior HUD review or approval. FHA's Mutual Mortgage Insurance Fund 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 premiums paid by homeowners are maintained in an account that is used to operate and sustain the program.

All FHA lenders must follow all applicable statutes, regulations, and HUD's written instructions, including program handbooks and mortgagee letters. Various sanctions exist that allow the HUD Homeownership Centers[1] and FHA the flexibility to respond appropriately to any noncompliant action by a direct endorsement lender or other program participant. The Homeownership Centers and the Mortgagee Review Board may impose the following sanctions: lender probation, withdrawal of direct endorsement status, withdrawal of FHA approval, indemnification agreements, civil money penalties, and sanctions against individual program participants.

The Lending Company, Inc. is a nonsupervised lender that was approved on July 22, 1996 to originate FHA-insured loans and received direct endorsement authority on March 10, 2008. The Lending Company's home office address is 6910 East Chauncey Lane, Phoenix, AZ, and it has 14 FHA-approved active branches in Arizona, California, and Connecticut. From September 1, 2008, to August 31, 2012, The Lending Company originated or underwrote 4,297 FHA-insured loans.

We selected The Lending Company for review based on a hotline complaint and previous reviews conducted by HUD's Quality Assurance Division (QAD). The hotline complaint alleged that The Lending Company (1) violated Section 2113 of the Housing and Economic Recovery Act of 2008, (2) violated loan originator compensation laws, (3) manipulated appraisals, (4) provided false and misleading information on quarterly and annual recertifications, and (5) abused its lender insuring privileges. We were able to substantiate the allegations related to violations of Section 2113 of the Housing and Economic Recovery Act of 2008 (see finding 1). The audit was also part of our goal to improve the integrity of the FHA single-family insurance programs. Our objectives were to determine whether The Lending Company used two unallowable nonprofit gift programs, complied with HUD's requirements in

[1] The Homeownership Center's objectives include (1) reducing the risk of defaults and claims to FHA, (2) improving lender performance, and (3) removing noncomplying lenders from the program.

the underwriting of FHA-insured loans, and implemented its quality control functions in accordance with HUD's requirements.

RESULTS OF AUDIT

Finding 1: The Lending Company Used Two Gift Programs That Did Not Comply With HUD Requirements

The Lending Company used gift programs through two nonprofit organizations that did not comply with HUD requirements. These gift programs did not comply with HUD requirements because The Lending Company reimbursed the nonprofit organizations, directly and indirectly, the amount of the gifts that were provided. We identified 789 FHA-insured loans that closed from April 1, 2009, to May 18, 2012, that contained unallowable gifts. This occurred because for the first gift program, The Lending Company was unaware of the HUD requirements regarding allowable sources of gift funds. With the second gift program, The Lending Company, already aware of the applicable HUD requirements, structured the program in a similar manner that disregarded the same HUD requirements. As a result,[2] the 789 loans with unallowable gifts placed the FHA insurance fund at greater risk and caused HUD to incur losses.

Prohibited Seller-Funded Downpayment Assistance Programs

Before October 1, 2008, sellers and lenders could fund the buyer's downpayment assistance that was provided by nonprofit organizations. However, Section 2113 of the Housing and Economic Recovery Act of 2008[3] prohibited seller-funded downpayment assistance for loans insured by FHA. This law was effective on October 1, 2008. The Recovery Act and 12 U.S.C (United States Code) 1709 state that in no case may the funds required for the cash investment consist of funds provided by

- The seller or any other person that financially benefits from the transaction or
- Any third party or entity that is reimbursed, directly or indirectly, by any of the parties above.

HUD Handbook 4155.1, Chapter 5, Section B, provides HUD's requirements regarding gifts. It states that a gift donor may not be a person or entity with an interest in the sale of the property. It further states that, as a general rule, FHA is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transaction.

[2] See the table in the conclusion of this finding for the summary table.
[3] See appendix C for all criteria references found in the audit report.

First Prohibited Gift Program: Family Housing Resources

On January 28, 2009, The Lending Company entered into an agreement with Family Housing Resources (FHR), a nonprofit organization, in which FHR provided downpayment assistance in the form of gifts to FHA borrowers. We identified 323 FHA-insured loans that closed from April 1, 2009, to September 22, 2010, that were originated by The Lending Company and received gifts from FHR. However, 320 of these gifts did not comply with HUD requirements because FHR submitted invoices to The Lending Company and was directly reimbursed for the amount of each of the gifts in addition to a fee.

Written Agreement

According to the written agreement, qualified borrowers would receive a gift from FHR for 2.5 percent of the sales price, reducing the borrowers' required downpayment to 1 percent of the sales price to meet the 3.5 percent downpayment required by HUD Handbook 4155.1, paragraph 2.A.2.a. This gift program was marketed as a 1 percent down purchase loan. The Lending Company would then pay fees to FHR that were specified in the agreement and consisted of the following:

- 1 percent of the loan amount as a marketing fee for the services performed in promotion of the program,
- 1.5 percent of the loan amount as an administration fee for overhead expenses incurred in support of the program, and
- 45 basis points (0.45 percent) of the loan amount as a processing and underwriting fee in support of the program.

These fees totaled 2.95 percent of the loan amount; however, The Lending Company reimbursed FHR based on the sales price for the marketing and administration fee and not the loan amount stated in the written agreement. The marketing and administration fee did not always total the percentage stated in the agreement (2.5 percent) but was based on the amount of the gift that was provided. The table below lists two examples of loans in which the gifts provided by FHR were 2.5 and 2.0 percent of the sales price and the amount reimbursed by The Lending Company was based on the gift amount and not the marketing and administration fees stated in the written agreement.

	023-3356651	023-3536461
Sales price	$170,000	$132,945
Amount of gift from FHR	$4,250	$2,659
Percentage of gift to sales price	2.50%	2.00%
FHR invoice – “gift amount”[4]	$4,250	$2,659
FHR invoice – “fees”	$751	$587

Invoices

After gifts were provided to borrowers, FHR submitted invoices to The Lending Company that detailed the names of the borrowers who received a gift, the amount of the gift, and the amount of the associated fees. The invoices were dated from May 2009 to October 2010 and totaled $1.23 million. We traced and matched the names of the borrowers for the 320 unallowable gifts to the FHR invoices.[5] A review of The Lending Company’s general ledger indicated that it paid FHR for all of the invoices. The total payments to FHR were $1.23 million from June 1, 2009, to October 19, 2010.

The Lending Company Was Informed That the First Gift Program Was Prohibited

On October 4, 2010, a large lender informed The Lending Company that approval for the gift program with FHR was withdrawn because the funds for the program were ultimately paid by The Lending Company and was not an allowable source of funds (see excerpt below). Subsequently, HUD’s QAD conducted a review of The Lending Company on October 13, 2010 and determined that it had entered into an unallowable contract with FHR. The Lending Company responded to HUD’s finding and stated that it had already discontinued the program in September 2010.

[4] The invoices from FHR to the lender did not break out the marketing and administration fees. They listed only the following: gift amount, fees, and amount [total]. It appeared that the “fee” listed was the processing and underwriting fee.

[5] The invoices for the payments on September 18 and December 16, 2009, were not received; however, we were able to determine the names of the borrowers who received gifts from a spreadsheet provided by FHR. There was also one name of a borrower that was not listed on the invoices, but the November 16, 2009, invoice was revised to include the amount of the gift and fee for the borrower. We were able to determine the name of the borrower from the spreadsheet provided by FHR.

NOTICE OF DECLINATION:

Reason of Ineligibility: Based on new information submitted to [redacted] the approval for this program has been withdrawn effective 10/04/2010.

The funds for the program; given by the Family Housing Resources Inc through their Arizona Homebuyer Solutions Gift Program, are ultimately paid by the lender. The Lender is required to pay a Service Fees that equals the amount of the Grant (2.5%) plus a processing/underwriting fee (.45%). This is not an allowable source of funds.

Second Prohibited Gift Program: Affordable Housing Partners

One month before The Lending Company decided to terminate its gift program with FHR, it entered into an agreement with Affordable Housing Partners (AHP) on August 20, 2010. The agreement was similar to the agreement with FHR, in that downpayment assistance would be provided to borrowers in the form of a gift, but did not specify fees that The Lending Company would pay to AHP. The Lending Company's chief executive officer stated that donations were provided to Mission of Grace as a way of thanking AHP for providing the gifts. AHP is a subordinate organization under the umbrella of Partners in Action and although Mission of Grace is a separate organization, it is under Partners in Action's administrative umbrella.

The Lending Company started closing loans under the gift program with AHP on September 10, 2010, which was prior to the review by HUD's QAD. Initially, the AHP gift program was structured in the same manner as the FHR program. The Lending Company directly funded the gifts provided by AHP[6] by wiring funds to Partners in Action. The first wire from The Lending Company to Partners in Action occurred on September 28, 2010 for $100,000. It appeared that after The Lending Company was made aware for the first gift program by FHR that it, as the lender, could not be the source of gift funds, it restructured the gift program. The Lending Company then started providing funds to Mission of Grace. The first deposit of funds to Mission of Grace occurred on October 11, 2010, just prior to the review by HUD's QAD.

In its response to the audit report[7], The Lending Company stated it conferred with a HUD QAD official regarding the AHP gift program in October of 2010. However, this discussion occurred after the AHP gift program was implemented

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[6] As stated earlier in the report, AHP is a subordinate organization of Partners in Action.
[7] See appendix B.

and restructured. Also, the details of the conversation were not documented, so there is no assurance that what the Lending Company told the HUD QAD official was a complete and accurate reflection of how the gift program was structured and implemented. Regardless of the singular conversation, The Lending Company had a number of regulatory resources[8] available to it that specifically stated the source of funds requirements and it also had an obligation to conduct due diligence to ensure its program was compliant with HUD regulations.

The Lending Company informed the HUD QAD official that, in addition to receiving gifts from AHP, it would donate funds to a charity; however, the funds paid to Mission of Grace were classified on its general ledger as advertising and marketing expenses and not donations. This was the same classification as the payments made to FHR for the first gift program. Although The Lending Company considered the funds provided to Mission of Grace to be donations, The Lending Company maintained a spreadsheet that tracked all of the gifts provided by AHP, the associated fees,[9] and the amounts of donations. It appeared that the spreadsheet was maintained to ensure that The Lending Company donated enough funds to cover the amount of the gifts, as there was a running balance subtracting the two amounts. Below is an excerpt from the spreadsheet to illustrate the running balance.

Date	Wired to AHP			AHP Paid Out		
09/28/10	100000.00		Sep-10	47731.14		52268.86
10/12/10	100000.00		Oct-10	99567.69		
10/27/10	150000.00					202701.17
11/19/10	100000.00		Nov-10	166585.47		136115.70
12/15/10	100000.00		Dec-10	122109.93		114005.77

We identified 469 FHA-insured loans that closed from September 10, 2010, to May 18, 2012, that were approved by The Lending Company and received an unallowable gift from AHP. The Lending Company's general ledger indicated that it donated $1.86 million to Mission of Grace[10] from September 28, 2010, to April 2, 2012. These donations were typically made in increments of $50,000, and the timeframe during which these donations were made coincided with the dates of the gift program. The spreadsheet that tracked the gifts indicated that the amount of the gifts in addition to the fee totaled $1.83 million. The remaining balance (approximately $23,000) was not returned to The Lending Company.

[8] The Housing and Economic Recovery Act of 2008, 12 U.S.C. 1709(b)(9)(c), and HUD Handbook 4155.1, chapter 5, section B.
[9] The spreadsheet showed that the fee paid to Mission of Grace was 0.35 percent of the loan amount, and an official from Partners in Action stated that the fee was for the education course provided to the home buyers.
[10] Of this amount, $100,000 was provided to Partners in Action and not Mission of Grace.

The Lending Company stated that it thought there was no problem with the gift program because it made donations to a company other than the nonprofit organization providing the gift. Also, officials from Partners in Action stated that the donations provided by The Lending Company to Mission of Grace were not commingled with the gifts provided by AHP. However, the official stated that the gift account was tracked closely and a request for more donations would be made if funds were running low and that AHP would not have been able to provide the amount of gifts that were given without the donations provided by The Lending Company. Therefore, without the donations from The Lending Company to Mission of Grace, AHP would not have provided gifts to borrower and the AHP gift program would not have existed. The Lending Company was only providing funds to Mission of Grace because it was receiving a benefit in return, in the form of gifts provided by AHP to borrowers. Ultimately, this resulted in The Lending Company indirectly being the source of funds for each gift.

Conclusion

Because The Lending Company was unaware of HUD requirements regarding allowable sources of gift funds for the first gift program and disregarded HUD requirements for the second gift program, it inappropriately approved 789 FHA-insured loans (320 FHR + 469 AHP) that had unallowable gifts, exposing HUD to unnecessary insurance risks, and caused HUD to incur losses. Of the 789 loans, 57 were refinanced (not a streamline refinance)[11] or paid in full, resulting in 732 loans remaining that suffered or could suffer losses to HUD. Of the 732 loans, 725 had a total unpaid mortgage balance of $97.3 million with an estimated loss to HUD of $55.4 million,[12] with 26 of these loans 3 or more months delinquent.[13] HUD also paid claims of $612,114 for seven loans with an actual loss[14] of $284,412. In addition, HUD paid loss mitigation claims[15] of $5,450 for seven loans.

[11] We are not seeking indemnification or reimbursement for loans that were refinanced (not a streamline refinance).
[12] The estimated loss amount is based on FHA's 57 percent loss severity rate, multiplied by the unpaid principal balance. The 57 percent loss rate was the average loss on FHA-insured foreclosed-upon properties based on HUD's Single Family Acquired Asset Management System's "case management profit and loss by acquisition" as of December 2012.
[13] See appendixes D and E.
[14] The losses resulted when the properties that secured these loans were sold and the insurance claims and other expenses incurred by HUD exceeded the sales proceeds.
[15] FHA offers a number of loss mitigation programs to assist FHA-insured homeowners facing financial hardship, and whose mortgage is either in default or at risk of default. Such programs result in claims paid to lenders for participation.

Loss summary for loans with unallowable gifts					
Nonprofit	**Number of loans**	**Unpaid balance**	**Claim amount**	**Loss to HUD**	**Estimated loss to HUD (57%)**
FHR – active loans[16]	292	$ 38,669,742	$ -	$ -	$ 22,041,754[17]
FHR – claim loans[16]	6	-	602,379	274,677	-
AHP – active loans[18]	433	58,593,224			33,398,142[19]
AHP – claim loans[18]	1	-	9,735	9,735	-
Totals	**732**	**$ 97,262,966**	**$ 612,114**	**$ 284,412**	**$ 55,439,896**

Recommendations

We recommend that HUD's Associate General Counsel for Program Enforcement

1A. Determine legal sufficiency and if legally sufficient, pursue civil and administrative remedies (31 U.S.C. 3801-3812, 3729, or both), civil money penalties (24 CFR (Code of Federal Regulations) 30.35), or both against The Lending Company, its principals, or both for incorrectly certifying to the integrity of the data, the mortgage eligibility for FHA mortgage insurance, or that due diligence was exercised during the origination of 732 loans that resulted in actual losses of $284,412 on 7 loans and potential losses of $55.4 million on 725 loans for a total loss of $55.7 million, which could result in affirmative civil enforcement action of approximately $116.9 million.[20]

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require The Lending Company, after completion of action under recommendation 1A, to

1B. Indemnify HUD against losses for the 725 FHA-insured loans with an unallowable gift in the amount of $97.3 million, thereby putting an estimated loss to HUD of $55.4 million to better use.[21]

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[16] See appendix D.
[17] The amount does not equal the unpaid balance multiplied by the estimated loss because of rounding. See appendix D for the estimated loss for the 292 loans that total this amount.
[18] See appendix E.
[19] The amount does not equal the unpaid balance multiplied by the estimated loss because of rounding. See appendix E for the estimated loss for the 433 loans that total this amount.
[20] Double damages for actual loss amounts related to 7 loans and potential losses to 725 loans ($284,412 + $55,439,896) plus a fine of $7,500 each for the 725 loans with unallowable gifts (($55,724,308 x 2) + ($7,500 x 732) = $116,938,616)
[21] See appendixes D and E.

1C. Reimburse the FHA insurance fund for the $284,412 in actual losses resulting from the amount of claims and associated expenses paid on seven loans that contained an unallowable gift.[22]

1D. Support or repay the FHA insurance fund $5,450 for the loss mitigation claims[15] paid as of April 30, 2013, on seven loans[23] that contained an unallowable gift.[24]

[22] See appendixes D and E.
[23] 022-2192845, 023-3720644, 023-3766993, 023-4010358, 023-4081269, 023-4135502, and 023-4485740
[24] See appendix E.

Finding 2: The Lending Company Did Not Always Approve FHA-Insured Loans in Accordance With HUD Requirements

The Lending Company did not always originate and underwrite FHA-insured loans in accordance with HUD requirements. Specifically, 28 of the 31 loans reviewed contained underwriting deficiencies, with 9 containing material underwriting deficiencies that impacted the insurability of the loan and 19 containing technical underwriting deficiencies. Also, The Lending Company did not properly assess the funds a seller contributed to close one loan. This noncompliance occurred because The Lending Company did not exercise due diligence in underwriting FHA loans and disregarded HUD's underwriting requirements. As a result, The Lending Company exposed HUD to unnecessary insurance risks and caused HUD to pay $500,058 in claims and incur losses[14] of more than $421,630 for five loans that contained material underwriting deficiencies. The remaining four loans with material underwriting deficiencies either had an unallowable gift (three loans) and the impact is included under finding 1 or was terminated and paid in full (one loan).

Nine FHA Loans With Material Underwriting Deficiencies

Our detailed review of 31 FHA-insured loans identified 9 with material underwriting deficiencies that included inadequate determination or documentation of income, determination or documentation of credit, and review of an appraisal report. HUD Handbook 4155.1 provides the requirements for underwriting FHA-insured loans, including the evaluation of the borrower's capacity to repay the loan (income), credit history, and assets available to close the loan (see appendix C). The Lending Company inappropriately approved nine loans[25] based on inadequate determination and documentation of these factors. The table below summarizes the loan deficiencies identified.

[25] Appendix G contains detailed loan summaries for the nine loans with material underwriting deficiencies.

FHA loan number	Underwriting deficiencies				Deficiency type		
	Income	Credit	Assets	Other	None	Technical	Material
022-2192845	–	–	–	✓	–	–	✓
023-2914717	–	✓	✓	✓	–	✓	–
023-2971333	✓	–	✓	✓	–	–	✓
023-3046385	✓	–	✓	✓	–	–	✓
023-3077216	–	–	–	✓	–	✓	–
023-3096448	✓	–	–	✓	–	✓	–
023-3110658	✓	–	✓	✓	–	✓	–
023-3149318	–	✓	✓	✓	–	✓	–
023-3167827	✓	–	–	✓	–	–	✓
023-3184101	–	–	–	✓	–	✓	–
023-3219159	–	✓	–	–	–	✓	–
023-3283224	✓	–	–	✓	–	✓	–
023-3288489	–	–	✓	–	–	✓	–
023-3295473	✓	–	–	–	–	–	✓
023-3440596	–	✓	✓	✓	–	✓	–
023-3502416	✓	–	–	✓	–	–	✓
023-3518179	–	–	✓	✓	–	✓	–
023-3555323	–	–	–	✓	–	✓	–
023-3610521	–	–	–	✓	–	✓	–
023-3629846	–	–	–	✓	–	✓	–
023-3661762	–	✓	–	–	–	–	✓
023-3681607	–	–	–	–	✓	–	–
023-4002794	✓	✓	–	–	–	–	✓
023-4075444	✓	–	–	✓	–	✓	–
023-4096995	✓	–	–	–	–	✓	–
023-4168762	✓	–	–	✓	–	✓	–
023-4296610	–	–	–	–	✓	–	–
023-4443133	–	–	–	–	✓	–	–
023-4449250	–	–	✓	–	–	✓	–
023-4485740	–	✓	–	–	–	–	✓
023-4507773	–	–	✓	✓	–	✓	–
Totals	**12**	**7**	**10**	**20**	**3**	**19**	**9**

Income

Six of the nine loans with material underwriting deficiencies included The Lending Company (1) improperly calculating monthly income, (2) not obtaining the most recent 2 years' tax returns to support commission income, (3) not verifying employment for 2 years, (4) not conducting a verification of employment before the loan closed, (5) not justifying the use of bonus income that was earned for less than 2 years, and (6) not documenting or supporting “other” income that was used in qualifying the borrower.

Credit

Three of the nine loans with material underwriting deficiencies included The Lending Company improperly omitting liability accounts that were listed on the credit report and not documenting the monthly payment amount for a student loan that had a balance but no monthly payment amount on the credit report.

Other

One[26] of the nine loans with material underwriting deficiencies included The Lending Company not adequately reviewing the appraisal report. The Lending Company did not ensure that the appraisal report followed FHA’s antiflipping waiver because the second appraisal did not verify or explain the increase in value required by the waiver.

19 FHA Loans With Technical Underwriting Deficiencies

In addition to the nine loans that contained material underwriting deficiencies, we identified 19 FHA loans that contained technical underwriting deficiencies that did not comply with HUD requirements. The technical underwriting deficiencies were minor underwriting deficiencies that, even if corrected, would not result in a significant increase in mortgage risk and did not impact the insurability of the loan. We did not recommend indemnification or reimbursement for loans that contained only technical underwriting deficiencies. Examples of these technical underwriting deficiencies included loan files that did not contain the deposit slips or wire transfers for gifts as required by HUD Handbook 4155.1, paragraph 5.B.5.b, and explanation of credit inquiries that were within 90 days of the completed credit report as required by HUD Handbook 4155.1, paragraph 4C(2)(c). Other examples included income and liabilities that were improperly determined; however, the revised total fixed payment-to-income ratios did not increase to a level that impacted the insurability of the loan. The table in the previous section identifies the 19 loans that contained only technical underwriting deficiencies.

[26] FHA loan number 022-2192845. See appendix G for the loan summary.

More Than 6 Percent of the Sales Price Contributed by Seller

The Lending Company did not properly assess the funds a seller contributed to close one loan. As a result, it allowed the seller to contribute more than the 6 percent allowed by HUD Handbook 4155.1, REV-5, paragraph 1-7A. For FHA case number 023-3149318, the sales price of the property was $130,000 so the maximum amount the seller could contribute was $7,800. However, the HUD-1 settlement statement indicated that the seller contributed $8,901, which exceeded the 6 percent limit by $1,101.

HUD Exposed to Unnecessary Risks and Losses

Because The Lending Company did not follow HUD requirements when underwriting FHA loans for mortgage insurance, it inappropriately approved nine loans that had material underwriting deficiencies. The Lending Company did not exercise sound judgment and due diligence when it submitted these loans for FHA insurance. The Lending Company’s underwriters were aware of HUD’s requirements; however, they did not follow the requirements when they approved the nine loans that had material underwriting deficiencies. The underwriters incorrectly certified that nine loans were eligible for HUD mortgage insurance under the direct endorsement program. Regulations at 24 CFR 203.255 require a direct endorsement lender to certify that the proposed loan complies with HUD’s underwriting requirements.

Conclusion

Because The Lending Company did not comply with HUD requirements, it originated nine loans with material underwriting deficiencies and 19 loans with technical underwriting deficiencies. As a result, the nine loans exposed HUD to unnecessary insurance risks and caused HUD to pay $500,058 in claims and incur losses of $421,630 for five loans that contained material underwriting deficiencies. The remaining four loans that contained material underwriting deficiencies also contained an unallowable gift, and the losses are included under finding 1.

Recommendations

We recommend that HUD's Associate General Counsel for Program Enforcement

2A. Determine legal sufficiency and if legally sufficient, pursue civil and administrative remedies (31 U.S.C. 3801-3812, 3729, or both), civil money penalties (24 CFR 30.35), or both against The Lending Company, its principals, or both for incorrectly certifying to the integrity of the data or that due diligence was exercised during the origination of five loans that resulted in actual losses of $421,630, which could result in affirmative civil enforcement action of approximately $880,760.[27]

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require The Lending Company, after completion of action under recommendation 2A, to

2B. Reimburse the FHA insurance fund for the $421,630[28] in actual losses resulting from the amount of claims and associated expenses paid on five loans with material underwriting deficiencies.

2C. Pay down the principal balance by $1,101 for the one overinsured loan as a result of an excessive seller contribution.

[27] Double damages for actual loss amounts related to five loans ($421,630) plus a fine of $7,500 each for the five loans with material underwriting deficiencies (($421,630 x 2) + ($7,500 x 5) = $880,760)
[28] See appendix F.

Finding 3: The Lending Company Did Not Always Comply With HUD Quality Control Requirements

The Lending Company did not always follow HUD quality control requirements when reviewing FHA-insured loan files. Specifically, The Lending Company did not always review at least 10 percent of the loans it originated, did not adequately perform the quality control review of loans, and did not always review all of its loans that went into default within the first six payments. These deficiencies occurred because The Lending Company disregarded HUD's quality control requirements, although a prior review by HUD's QAD identified similar deficiencies in The Lending Company's quality control functions. As a result, the FHA insurance fund was placed at an unnecessarily increased risk of loss. Also, without an adequate quality control function, there was an increased risk of waste, fraud, and abuse.

Minimum Number of Loans Not Always Reviewed

HUD Handbook 4060.1, REV-2, paragraph 7-6C, requires the lender to review 10 percent of the FHA loans it originated. However, The Lending Company did not review at least 10 percent of the loans originated for 3 months from September 1, 2008, to August 31, 2012. The table below illustrates the 3 months without the minimum required reviews.

Month-year	Number of FHA loans closed	10 percent of loans	Loans reviewed	Difference
Nov. 2009	109	11	4	7
Jan. 2011	86	9	6	3
Aug. 2011	80	8	5	3

Early Payment Defaults Not Always Reviewed

HUD Handbook 4060.1, REV-2, paragraph 7-6D, requires the lender to review all loans going into default within the first six payments (early payment defaults) in addition to the loans selected for routine quality control reviews. HUD's QAD conducted a review of The Lending Company in December 2009 and determined that it failed to conduct quality control reviews of early payment defaults. The Lending Company responded that the quality control review of all early payment defaults was incorporated into its quality control plan. Although The Lending Company incorporated early payment defaults into its quality control plan, from

November 1, 2010, to August 31, 2012,[29] it did not review 5 of 12 loans that were early payment defaults.

Quality Control Reviews Not Adequate

HUD Handbook 4060.1, REV-2, paragraph 7-6E, requires that a new credit report be obtained for each borrower whose loan is included in a quality control review. It further requires that documents contained in the loan file be checked for sufficiency and be subject to written verification. Examples of items that must be reverified include the borrower's employment or other income, deposits, gift letters, alternate credit sources, and other sources of funds. If the written verification is not returned to the lender, a documented attempt must be made to conduct a telephone verification. The Lending Company did not adequately perform quality control reviews for 11 of the 15 loans reviewed. Specifically,

- Three did not have a reverification of employment (one had no response to the written attempt and no documented attempt at a telephone verification, and one had a telephone verification but no written attempt),
- Nine did not have a new credit report,
- Two did not have a reverification of assets,
- Three of the four loans that had a gift did not have a reverification of those gifts, and
- One did not have an appraisal desk review.

Conclusion

The Lending Company did not always follow HUD quality control requirements when reviewing FHA-insured loan files because it disregarded HUD quality control requirements, although a prior review by HUD identified deficiencies in The Lending Company's quality control functions. As a result, the FHA insurance fund was placed at an unnecessarily increased risk of loss and increased risk of waste, fraud, and abuse.

[29] The early payment defaults were not reviewed for the entire audit scope because the lender did not maintain the records beyond the required 2-year timeframe.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing require The Lending Company to

3A. Fully implement its quality control plan and provide HUD with periodic reports for 12 months to ensure that its quality control reviews, to include early payment defaults, are conducted in accordance with HUD requirements.

3B. Provide training to ensure that its quality control staff is aware of HUD's quality control program requirements.

SCOPE AND METHODOLOGY

We selected The Lending Company based on a hotline complaint and previous reviews conducted by HUD's QAD. Our audit period covered loans with beginning amortization dates from September 1, 2008, to August 31, 2012. We conducted our fieldwork at The Lending Company's office located in Phoenix, AZ, between October 2012 and May 2013.

We used HUD's Single Family Data Warehouse[30] to identify all FHA-insured loans that were originated or underwritten by The Lending Company. During the audit period, The Lending Company originated or underwrote 4,297 FHA-insured loans. For our review of The Lending Company's underwriting, we selected a sample of 31 FHA-insured loans selected nonstatistically based on the following factors:

- Loans that were in claim status (16 loans),
- Loans that were seriously delinquent[31] (14 loans),
- Loans that were terminated and streamline refinanced and then went into claim status (1 loan),
- Properties located in Arizona, and
- Loans that had not been reviewed by HUD's QAD or selected for a post-endorsement review.

For our review of The Lending Company's use of nonprofit gift programs, we reviewed all loans that had a gift from FHR or AHP. The loans were identified by the tax identification number in Single Family Data Warehouse for the two nonprofit organizations, the invoices from FHR, and the spreadsheet maintained by The Lending Company of gifts from AHP.

To perform our quality control file review, we requested a listing from The Lending Company of all quality control reviews performed during our audit period. There were a total of 432 quality control reviews of FHA-insured loans during this period. We selected a nonstatistical sample of 15 quality control reviews to examine. We selected the quality control reviews that were part of our audit sample, which resulted in one quality control review. We then selected 14 quality control reviews based on auditor judgment that covered the entire audit scope (2 to 4 files from each year).

[30] 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.
[31] Seriously delinquent loans are loans that are 90 days or more delinquent.

To accomplish our objective, we

- Reviewed applicable HUD and FHA regulations, requirements, mortgagee letters, and reference materials;
- Interviewed appropriate management and staff;
- Interviewed staff from the nonprofit organizations that were involved in the gift programs;
- Obtained documentation from the nonprofit organizations for the gift programs;
- Reviewed all of the loans that had an unallowable gift (789 loans);
- Reviewed 31 of The Lending Company's FHA-insured loan files;
- Interviewed borrowers;
- Performed employment reverifications;
- Reviewed the quality control plan; and
- Reviewed 15 of The Lending Company's quality control reviews.

We used the source documents in the loan origination files to determine whether a gift was provided by one of the nonprofit organizations and to review the income, assets, and liabilities of the borrower(s). For our review of the gift programs, we also reviewed the FHR invoices, the spreadsheet of gifts maintained by FHR, the spreadsheet of AHP gifts maintained by The Lending Company, The Lending Company's general ledger, bank statements from Partners in Action, and documents obtained through title companies. For our appraisal review, a HUD Office of Inspector General (OIG) appraiser performed a detailed review of a nonstatistical sample of 16 appraisals. We selected the appraisals based on data maintained by HUD in Single Family Data Warehouse. However, due to the subjectivity involved in the appraisal process, we did not report on potential deficiencies.

We used the data maintained by HUD in Single Family Data Warehouse to obtain the unpaid mortgage balances and claims paid for each of the loans (as of May 29, 2013). HUD paid claims on 12 of the loans that we determined had an unallowable gift or material underwriting deficiencies and incurred actual losses on all of those loans.[32]

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

[32] See appendixes D, E, and F.

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 objectives:

- Controls intended to ensure that the lender uses gift programs in accordance with HUD's requirements (finding 1).
- Controls intended to ensure that the lender underwrites (approves) FHA-insured loans in accordance with HUD's requirements (finding 2).
- Controls intended to ensure that the lender implements a quality control program that complies with HUD's requirements (finding 3).

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Lending Company did not have adequate controls to ensure that gifts from nonprofit organizations complied with HUD requirements (finding 1).

- The Lending Company did not have adequate controls to reasonably ensure that loans were originated and underwritten in accordance with HUD requirements (finding 2).
- The Lending Company did not have adequate controls to ensure that its quality control program was implemented and complied with HUD quality control requirements (finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B			$55,439,896
1C	$284,412		
1D		$5,450	
2B	421,630		
2C	1,101		
	$707,143	**$5,450**	**$55,439,896**

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, the ineligible costs are HUD's actual losses for seven loans that contained an unallowable gift (see appendixes D and E) and five loans that had material underwriting deficiencies (see appendix F). The losses resulted when the properties that secured these loans were sold and the insurance claims and other expenses incurred by HUD exceeded the sales proceeds.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, the unsupported costs are the loss mitigation claims[15] paid by HUD for seven loans that contained an unallowable gift.

3/ 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. In this instance, implementation of recommendation 1B to indemnify loans not approved in accordance with HUD's requirements will reduce FHA's risk of loss to the insurance fund. The amount noted reflects HUD's calculation that FHA loses an average of 57 percent of the unpaid principal balance when it sells a foreclosed-upon property (see the estimated loss to HUD in appendixes D and E). The 57 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 2013 based on actual sales.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

HEERING LAW

Robb Heering, Esq.
Federal Regulatory Counsel

July 22, 2013
Via UPS Next Day Air and Email Attachment

Ms. Tanya E. Schulze
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
611 W. 6th Street, Suite 1160
Los Angeles, CA 90017

Re: The Lending Company, Inc., Audit Report Number: 2013-LA-100X

Dear Ms. Schulze:

This letter serves as the response of The Lending Company, Inc. (TLC) to your letter and the Discussion Draft Report dated July 3, 2013 containing the findings of the completed audit of TLC as conducted by your office.

We wish to reiterate that TLC is committed to strict adherence to state and federal laws, regulations and, specifically, all HUD guidelines.

TLC strives to maintain a consumer centric mortgage lending environment with practices, policies, and procedures which in fact have resulted in TLC's compliance with HUD established guidelines.

This response will clearly exhibit such compliance and will dispel any significant finding to the contrary.

TLC believes that the findings are at substantial variant with the facts, and the facts do not constitute violations of HUD/FHA requirements and do not negatively affect the underlying loans insurability.

The subject Discussion Draft Report is replete with factual inaccuracies and reflects a fundamental misunderstanding or disregard of established and documented facts.

With respect to the most significant and troubling finding, the use of "Gift Programs That Did Not Comply with HUD Requirements", which the Discussion Draft Report states occurred in 789 instances, it is TLC's position that the auditors failed to recognize key and pivotal facts, which facts negate and invalidate the findings.

With respect to each of the specific findings of the Discussion Draft Report, TLC responds as follows:

Audit Findings

Finding 1: The Lending Company Used Two Gift Programs That Did Not Comply with HUD Requirements

The Discussion Draft Report claims 789 FHA insured loans contained unallowable gifts. The auditors focused on two different gift programs to derive its findings. The first program commenced on January 28, 2009 when TLC entered into an agreement with Family Housing resources (FHR), a non-profit organization, in which FHR provided down payment assistance in the form of gifts to FHA borrowers. The auditors determined that 320 of 323 of the underlying loans contained gifts which did not comply with HUD requirements because for each of the gifts, FHR submitted invoices directly to TLC and was directly reimbursed for the amount of each of the gifts in addition to a fee which was charged to TLC by FHR.

Comment 1

In October, 2010 HUD's Quality Assurance Division, acting through [redacted], an [redacted] employee of HUD's QAD, [redacted] conducted a review of TLC and determined at that time that TLC had entered into an unallowable contract with FHR. TLC had responded that the program which was the subject of the FHR contract had terminated in September of 2010. HUD completed its review of this matter and accepted a certification from TLC that the FHR contract and related program(s) were terminated.

Comment 2

Following the October 10 audit with [redacted], a meeting was held at TLC's office with Mark Nickel, President and Dave Johnson, Vice President and [redacted]. During the meeting the parties discussed the non-profit down payment gift program. TLC advised [redacted] that they had recently entered into another down payment gift program with an entity known as Affordable Housing Partnership (AHP). TLC's executives explained the contract and the subject down payment gift program to [redacted]. [redacted] had several questions regarding the operation of the program so Mr. Nickel called the president of AHP, [redacted], who was then placed on a speakerphone in Mr. Nickel's office so that all could parties could participate in the call simultaneously. [redacted] had questions regarding the programs' setup and operation. Following is [redacted] declaration:

* Names redacted for privacy reasons.

Comment 3

DECLARATION OF [redacted]

I, [redacted] declare as follows:

1. I am the Chief Operating Office for Affordable Housing Partners. I submit this at the request of The Lending Company, Inc. I freely and voluntarily provide this declaration and understand I am under no obligation to do so. I have personal knowledge of the facts in this declaration and, if called as a witness, I could and would testify competently to such facts under oath.

2. Affordable Housing Partners ("AHP") is a qualified not for profit organization under the rules and regulations of the Internal Revenue Service, including Internal Revenue Code § 501(c)(3). AHP's primary mission is to provide housing for low income individuals.

3. In raising money for its charitable activities AHP entered into an agreement with The Lending Company ("TLC") to provide down payment gifts to low income home buyers (the Down Payment Gift Program). In entering into this agreement AHP generally relied on TLC to comply with any applicable lending rules and regulations. However, because AHP has a long and honorable record of serving low income persons, it was important to me and AHP for AHP and TLC to create a long term, successful program.

4. Under the Down Payment Gift Program AHP would makes gifts of up to 2.5 % of the purchase price of a home for a low income home buyer who otherwise qualified through TLC for a mortgage. TLC made donations to Mission of Grace, another and separate 501(c)(3) organization that I manage.

5. On or about October 2010, I was called by Mark Nickel, President of TLC. Also on the call were Dave Johnson, TLC Sr. Vice President and [redacted], a HUD Quality Assurance Division Auditor. Mr. Nickel was speaking from his office speakerphone and informed me that he was on speakerphone and that Mr. Johnson and [redacted] were also on the call.

6. Mr. Nickel advised me he and Mr. Johnson had been reviewing the structure of the down payment gift program with [redacted] and that [redacted] had

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Comment 3

some questions for me. [redacted] and I had a short discussion concerning AHP, the down payment gift program and Mission of Grace.

7. During our conversation [redacted] told me that funds from TLC could not be commingled with funds from AHP. I told her that I would make certain that any TLC donation would be used solely within Mission of Grace, and not for AHP so that there would be no comingling of TLC funds. This is exactly what I did. The TLC funds where donated to Mission of Grace and Mission of Grace used those funds to support various schools and orphanages around the world. The TLC donation were not used or mixed with any of the Down Payment Gift Program funds.

8. At the end of my conversation with [redacted] told me that as long as AHP and Mission of Grace maintained separate funds and the TLC funds donated to Mission of Grace were not used by AHP, [redacted] and implicitly HUD, was fine with the arrangement.

9. In my efforts to meet [redacted], and HUD's, expectations, I made certain that none of the funds received by Mission of Grace from The Lending Company were used to pay for the AHP down payment gifts. Simply put, no funds received by Mission of Grace from The Lending Company were transferred to AHP.

Executed on July 22, 2013, at Scottsdale, Arizona.

I declare under penalty of perjury under the laws of the State of Arizona that the foregoing is true and correct.

[redacted]

Based upon [redacted] involved review of the down payment gift program and [redacted] statements as indicated above, TLC continued the down payment gift program with AHP.

Comment 2

TLC expressly and apparently detrimentally relied upon the expressed opinions and statements of [redacted].

Comment 2

The meeting referred to above was conducted during [redacted] review and audit of the subject gift program. [redacted] statements were not misinterpreted and were not taken out of context. [redacted] statements and assurances that as long as TLC did not make donations or submit funds to the gifting entity, and further provided that the gifting entity did not directly or indirectly receive the funds were relied upon by TLC in the continued operation of the AHP down payment gift program.

Comment 3

The Draft Discussion Report further finds that TLC thought there was "no problem with the gift program because it made donations to a company other than the non-profit organization providing the gift". Further, the AHP official stated that the gift account was tracked closely and a request for more donations would be made if funds were running low and that AHP would not have been able to provide the amount of gifts that were given without the donations provided by TLC.

It is imperative to understand the involved non-profit organization, their structure and their funding.

AHP is the organization which made the gifts.

AHP is an Arizona Limited Liability Company. According to the Arizona Corporation Commission, the LLC is managed by an entity known as Partners in Action, Inc.

Mission of Grace is an Arizona Corporation. According to the Arizona Corporation Commission, the corporation, as a non-profit, has no owners but is managed by [redacted].

The structure and workings of the non-profits known as Mission of Grace and AHP relative to TLC is noted as follows:

Comment 4

Following and pursuant to instruction of [redacted], it was clearly established and understood that AHP would be the gifting entity. It was also clearly established that, in order to remain compliant with HUD guidelines, TLC could not, in any way provide funds to AHP.

Prior to its contract with TLC, AHP supported a multitude of charitable causes, including Mission of Grace. Once the TLC-AHP contract was executed, AHP would use funds which were donated to it from its global base of church, corporate, and individual donors to support one of its new causes, TLC mortgage clients seeking down payment assistance. The TLC cause resulted, as expected, in AHP exhausting a majority of its funds. As a result, and to ensure that AHP could continue to support its other causes, namely Mission of Grace, TLC made donations and contributions to Mission of Grace.

The Discussion Draft Report inaccurately states that Partners in Action is a parent organization of AHP and, "although Mission of Grace is a separate organization, it is under Partners in Actions administrative umbrella".

Comment 5

Mission of Grace is a totally, legally and financially separate and distinct Arizona corporate entity.

The reader must understand that AHP was the donor entity and TLC made contributions to Mission of Grace, an unrelated entity. Suggestions have been made by the OIG that AHP owns or controls Mission of Grace. AHP is an LLC. Mission of Grace is a corporation. Mission of Grace is a non-profit corporation, which, by Arizona law, has no owners. Mission of Grace is managed by [redacted], not by AHP and not by Partners in Action.

Comment 6

The Discussion Draft Report further, and offensively, finds that TLC "took steps to circumvent HUD requirements". Not only is such a statement false, it is inflammatory and disturbing. TLC acted upon and in adherence to the direction of [redacted], HUDs [redacted] QAD officer.

Comment 7

TLC's prior agreement with FHR was found to be violative of HUD guidelines as determined by [redacted]. The FHP matter was settled by HUD with the acceptance of TLC's written certification referred to earlier in this response. The AHP agreement was structured with the assistance, counsel, and direction of HUD's own Quality Assurance Division employee, [redacted].

Comment 1
Comment 4

In addition, and during the entire operation of the AHP down payment gift program, [redacted] assisted TLC with the operation of the program on several levels as follows:

From time to time between October, 2010 and May, 2012, various investors including Wells Fargo had contacted TLC regarding the proposed purchase of the loans which are the subject of this matter. On several occasions, TLC contacted [redacted] to seek [redacted] assistance in assuring the investors that the loans were, in fact, in compliance with HUD guidelines thereby assuring the investors that the loans were clear for purchase.

Comment 8

These express, intentional, and cooperative actions by an authorized HUD QAD representative in assisting TLC with the sale of the loans which are now the subject of the completed OIG audit of TLC clearly establish that not only did TLC not take steps to circumvent HUD requirements, but conversely, took steps to involve HUD in the operation of the down payment gift program with the intention of remaining in total compliance with HUD regulations. TLC did not take "steps to circumvent" HUD regulations but, rather, took steps to assure compliance by conferring directly and

Comment 4
Comment 7

systematically with HUD prior to and during the operation of the subject down payment gift program.

Comment 2

To find otherwise completely ignores or improperly and inappropriately discounts the facts of the matter.

Comment 8

On several occasions, [redacted] spoke with or otherwise communicated with both TLC and its lenders such as Wells Fargo regarding the subject loans which contained the gifts from AHP. Following are a few email exchanges between [redacted] and TLC:

From: [redacted]
Sent: Friday, November 12, 2010 9:49 AM
To: 'Mark Nickel'
Subject: RE: FW:

I have been busy with all this stuff from your review but I forwarded this week to Santa Ana. I sent a memo to my director stating that you thought the program was okay and all that transpired. I also requested that no action be taken against you.

I will start the other issues with the tribes next week.

[redacted]

From: Mark Nickel [mailto:[redacted]
Sent: Friday, November 12, 2010 9:36 AM
To: [redacted]
Subject: RE: FW:

Comment 8

I left [redacted] a voicemail and explained we will not be utilizing his program now nor in the future. When I receive a return call I will inform him to remove TLC from the website. Thank you for the heads up. Have you heard anything on the 2nd program? Can you give me the name or any information of the entity in Nevada.

From: [redacted]
Sent: Tuesday, March 09, 2010 7:14 AM
To: Mark Nickel
Subject: RE:

Paragraph 5-3(A)(4) of HUD Handbook 4000.2 prohibits payments to any party for referring a loan.

All mortgage transactions, including FHA insured loans, must be in compliance with RESPA.

Information on RESPA can be found on:
http://www.hud.gov/offices/hsg/ramh/res/respa_hm.cfm

Also, HUD Handbook 4060.1 Paragraph 5-9.

Comment 8

From: Mark Nickel [mailto:[redacted]
Sent: Monday, March 08, 2010 4:09 PM
To: [redacted]
Subject: RE:

Thx. [redacted]. Do you have any verbiage you can send me to regarding the second item? I am looking for any specific recent rulings that support this.

From: [redacted]
Sent: Monday, March 08, 2010 3:28 PM
To: Mark Nickel
Subject: RE:

RESPA violation on the first scenario. Whatever way you look at it, it is a referral fee. NO WAY. Unless you have an exclusive principal-agent relationship that is HUD-approved and you only have one and that is BofA. I know you love them. Ha ha.

Builders do it all the time. Yes, it is permissible as long as they and you don't violate RESPA. There is a fine line that the builders walk and they are inches away from those violations. It has to do with incentives. Pulte has Pulte Mortgage, KB Homes has KB Mortgage, etc.

From: Mark Nickel [mailto:[redacted]
Sent: Monday, March 08, 2010 3:21 PM
To: [redacted]
Subject:

[redacted],

Hope all is well. There are lenders who are sending us FHA big eagle to big eagle loans. These loans are being sent due to their specific overlays or our 2.5% gift product. They are asking if we can include a 1% origination fee payable to them. We would not be charging additional fees to the buyer. They are participating in the application process and performing the required duties to insure we are all RESPA compliant.

Another question has arisen from a builder who would like us to be the only preferred lender. The incentives the builder would give to a prospective borrower would be tied to using our services. Is it permissible for the builder to tie the incentives exclusively to The Lending Company?

From: [redacted]
Sent: Wednesday, March 28, 2012 9:45 AM
To: 'Mark Nickel'
Subject: FAQs

Mark,

I am giving you the website where there are FAQs about secondary financing and it specifically states non-profits who gift do not have to have HOC approval.

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Comment 8

Comment 9

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/np/faqs_np

Q: What HUD/FHA programs require approval for non-profits to participate?

A: There are three types of approval that can be obtained by a non-profit organization. They are:

1) Approval to purchase HUD Homes at a discount. HUD/FHA allows non-profit organization to bid on and purchase HUD Homes at a discount. This allows the non-profit to pass on this savings, providing affordable housing opportunities for low-income or first time homebuyers. 2) Approval to finance FHA-insured mortgages at the same terms and conditions as an owner-occupant. This allows non-profits to purchase properties with lower down payment requirements, allowing them to fully leverage their funds. 3) Approval to provide secondary financing to borrowers originating FHA-insured mortgages. This allows organizations to provide closing cost or down payment assistance to borrowers in accordance with FHA guidelines. Gifts do not require approval by the HOC

[redacted]
Quality Assurance Division
US Dept of Housing and Urban Development
[redacted]

Finding 2: The Lending Company Did Not Always Approve FHA-Insured Loans in Accordance With HUD Requirements

The Discussion Draft Report finds that 28 loans reviewed contained underwriting deficiencies, such deficiencies were found to be deemed material in 9 instances, and technical in the remaining 18 instances.

FHA Case Number 023-4485740 indicates a material credit deficiency. TLC's review of this file indicates no credit deficiency. The loan was a 96.5% LTV, a 699 Fico, and ratios of 31/51. The borrower disclosed several employment positions, all within the same line of work. No liability accounts were improperly omitted.

FHA Case Number 023-3046385 indicates income, assets, and other deficiencies. TLC's review of the file disclosed that this was an Ameridream gift program (not one of the gift programs referred to in Finding 1) and indicated mortgage lates in 2007, 4 consecutive years of W-2 income showing base income only, and VOD's. Rental income from borrower's prior home was utilized w/o 25% equity.

FHA Case Number 023-3661762 indicates a material credit deficiency. This was a 96.5% LTV, 621 Fico, 29/52 debt ratio file with a gift provided by FHR. Borrower's base income with 2 years of employment history was utilized. Regarding credit, there was a tax lien from 2008 (this loan closed in August, 2009) which was paid and there were deferred student loans.

Comment 9

FHA Case Number 022-2192845 indicates a material 'other' deficiency. The Discussion Draft Report fails to indicate with specificity the detail of the finding. TLC's review showed a file with 96.5% LTV, a 682 Fico, and acceptable 21/47 debt ratios. Borrower documented 3 years of consecutive W-2 employment, base income only was used to calculate ratios. There was a prior borrower bankruptcy, discharged in February, 2005. All acceptable pursuant to HUD guidelines and regulations.

Comment 9

Of the remaining indicated loans, none contained identifiable material or technical deficiencies which were unsupported by file documentation.

Finding 3: The Lending Company Did Not Always Comply With HUD Quality Control Requirements

TLC is aware that HUD Handbook 4060.1, Rev-2, Paragraph 7-6C requires that TLC review at least 10 percent of originated FHA loans and TLC's written Quality Control Plan incorporates this provision.

It must be noted, however, that HUD Handbook 4060.1, Rev-2, Paragraph 7-3K states as follows:

"File Retention. The Quality Control review report and follow-up, including review findings and actions taken, plus procedural information such as the percentage of loans reviewed, basis for selecting loans, and who performed the review must be retained by the mortgagee for a period of two years. These records must be made available to HUD on request."

Comment 10

The overwhelming majority of the loans cited in the Discussion Draft Report predated this two year retention period. In fact, of the 48 months reviewed (September 1, 2008 and August 31, 2012), the report indicates that in 5 of those 48 months, TLC failed to review at least 10 percent of the loan files. Of the 5 months wherein the report pinpoints a failure to review the required minimum percentage of files, the difference between the required 10% and the supposed actual reviewed files is 22 loan files (out of 369 files). Of the 22 loans, 19 predated the two year retention requirement. Of the remaining 3 loans, depending upon the actual date of OIG's review of this matter, they too might have been outside of the two year retention period.

Comment 11

Comment 12

It is TLC's position that quality control in accordance with HUD requirements is necessary to ensure a compliant lending operation. TLC's own internal quality control practices meet or exceed all of the HUD quality control regulations and guidelines. TLC's internal quality control practices do not, in any manner, place the FHA insurance fund at an unnecessarily increased risk of loss, nor do TLC's practices result in FHA experiencing an increased risk of waste, fraud, or abuse.

Conclusion

TLC appreciates the opportunity to have met with OIG Audit Division's Director and staff and further, is appreciative of the opportunity to submit this response to the Discussion Draft Report.

Comment 2

Based upon the facts detailed in this response regarding Finding 1, TLC respectfully requests that the Finding 1 be summarily dismissed and removed from the final report.

Comment 9

Regarding Finding 2, TLC respectfully requests that each indicated loan file be reviewed again, as TLC's post audit review of these files failed to disclose the material deficiencies indicated by the audit. In addition, the files indicating technical deficiencies should also be reviewed as TLC's post audit review of the same failed to validate the auditor's findings. TLC respectfully requests that the final report be revised to remove non validated findings of material or technical deficiency.

Comment 10

Regarding Finding 2, TLC respectfully requests a modification of this finding as the majority of the questioned review reports are outside of the two year retention policy contained in HUD Handbook 4060.1, et seq.

TLC's commitment to compliance is paramount to its business operations and TLC believes that its prior and continued compliance is evident from the responses herein provided.

Sincerely,

Robb Heering

Robb Heering, Esq.
Counsel for The Lending Company, Inc.

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*Names redacted for privacy reasons.

Comment 1 We acknowledge that HUD reviewed The Lending Company in October 2010 and determined that the gift program agreement with Family Housing Resources (FHR) was unallowable, and closed their finding after The Lending Company stated it discontinued the agreement. However, this does not preclude the OIG from reporting on and making appropriate recommendations to HUD. OIG reviews are independent of HUD reviews and generally involve a larger scope. In this case, we determined the extent in which The Lending Company utilized two prohibited nonprofit downpayment assistance programs. The findings and recommendations of this audit report were made based on the independent analysis conducted by the OIG.

With regard to the FHR program, The Lending Company was unaware that lender funded downpayment assistance was not allowable. As an FHA direct endorsement lender, The Lending Company has the significant responsibility to be aware of HUD requirements and changes in those requirements. The Housing and Economic Recovery Act of 2008 (Recovery Act) ended all seller and interested third party funded down payment assistance programs on October 1, 2008. The Recovery Act received national attention as it strengthened restrictions on mortgage practices to alleviate the mortgage crisis at the time. However, presentation material from a loan officer of The Lending Company clearly identifies that seller funded downpayment assistance was taken away in 2008, a reference to the Recovery Act. The presentation material indicated that The Lending Company was aware of the HUD regulations concerning the allowable source of funds for downpayment assistance.

Comment 2 Regarding finding 1, The Lending Company placed a strong emphasis on its statement that it conferred with <u>one</u> HUD QAD official regarding the second gift program with Affordable Housing Partners (AHP). However, this emphasis is subordinate to the more significant issue that The Lending Company executed two prohibited nonprofit gift programs. The Lending Company requested that finding 1 be dismissed and removed from the final report based on information it provided in its response. For the reasons cited in audit report and these comments, the report remains unchanged.

Our own review of the AHP gift program, independent of any prior review conducted by HUD, determined that it was structured in a manner that did not adhere to HUD regulations and was therefore, unallowable. We determined, by nature of the structure of the AHP gift program, that The Lending Company indirectly provided the gift funds to FHA borrowers. As stated in the audit report, The Lending Company maintained a spreadsheet to ensure that enough funds were provided to Mission of Grace to cover the amount of the gifts provided by AHP. The spreadsheet tracked the funds provided to Mission of Grace in relation to the gifts provided by AHP and the associated fee (0.35 percent of the loan amount), indicating a quid pro quo relationship. Without the donations to Mission of Grace, AHP would not have provided gifts to borrowers and the AHP gift program would not have existed. The Lending Company was only providing funds to Mission of Grace because it was receiving a benefit in return, in the form of gifts provided by AHP to FHA borrowers.

We do acknowledge that The Lending Company conferred with a HUD QAD official, around October 2010, on the AHP down payment assistance gift program. However, The Lending Company was not able to provide any written documentation evidencing the details of the discussion and what was presented to the HUD QAD official. Our interview with the HUD QAD official indicated The Lending Company may not have provided all the significant details when it explained its second gift program with AHP. Specifically, it appeared the HUD QAD official was not aware that the funds provided by The Lending Company to Mission of Grace were a direct result of the gifts provided by AHP and that the amount of funds to be donated were directly linked to the amount of the gifts provided by AHP. The Lending Company informed the HUD QAD official that it would donate funds to Mission of Grace; however, the funds paid to Mission of Grace were classified on its general ledger as advertising and marketing expenses and not donations. Also, according to the HUD QAD official, of particular significance, The Lending Company failed to mention that they were directed to check with HUD's lender approval division to ensure the program, as it was set up, was in compliance with HUD's regulations.

Regardless of any discussion with a single HUD QAD official, it is the lender's responsibility to be knowledgeable of all HUD requirements and to ensure that the FHA loans it approves adheres to those requirements. The Lending Company had access to the same information and resources as all FHA lenders. The regulations concerning the source of funds were available in a number of citations: the Housing and Economic Recovery Act of 2008, 12 U.S.C. 1709(b)(9)(C), and HUD Handbook 4155.1, chapter 5, section B. Additionally, HUD has made available to all FHA lenders a number of resources, including the FHA Resource Center[33] and the lender section[34] of the HUD.gov website. Given that The Lending Company was already made aware that its first gift program was unallowable, it should have conducted better due diligence to ensure, without any ambiguity, that its second gift program was in compliance with HUD regulations. At no time did The Lending Company present the OIG any written evidence that it received approval from HUD, other than its assertion that it relied on a single conversation with this single HUD QAD official who gave verbal approval. An internal email on April 1, 2011, from a minority owner of The Lending Company to the chief executive officer, indicated that The Lending Company was aware that the AHP gift program was in violation of HUD requirements. The email stated "Technically we fall into the 'or any party that financially benefits from the transactions.' Maybe we should consider getting rid of the gift program after all…"

[33] http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fharesourcectr
[34] http://portal.hud.gov/hudportal/HUD?src=/groups/lenders

Comment 3 We acknowledge the signed statement from the AHP chief operating officer obtained by The Lending Company. While most of the signed statement appears to be accurate in comparison with the other information we gathered during our audit fieldwork, key components were missing, and thus, indicates that it was not explained to the HUD QAD official. Not present in the signed statement is information explaining that the gift program was set up as a quid pro quo relationship. Also missing was guidance provided by the HUD QAD official to The Lending Company to obtain additional direction from HUD to determine whether the second gift program was in compliance with HUD regulations. During an interview conducted by OIG on February 5, 2013, the AHP chief operating officer stated that the AHP gift account was tracked closely, with a request for more donations from The Lending Company if gift funds were running low. He also stated that the start and end dates of the AHP gift program and the donations to Mission of Grace were tied together, indicating a cause and effect relationship. He stated, in his opinion, the donations were related to the gift program. He also stated that AHP would not have been able to provide the amount of gifts that were given without the donations provided by The Lending Company. Without providing these full details to HUD at the time of the discussion that The Lending Company had, it was not possible for HUD to provide an accurate and reasonable determination of program compliance.

Comment 4 We strongly disagree with The Lending Company's references to counsel, instruction, or direction by a HUD QAD official as these references appear to overstate the amount of information that was provided by HUD. At no time did the HUD QAD official provide detailed counsel, instruction, or direction on how to set up the program or what elements the prohibited gift program should contain, other than stating that gift funds and donations should not be commingled. The HUD QAD official also provided additional guidance to The Lending Company advising it to obtain additional direction from HUD's lender approval division to determine whether the second gift program was in compliance with HUD regulations. To our knowledge The Lending Company did not do that.

Comment 5 We disagree with The Lending Company's assertion that the audit report is inaccurate in stating that Mission of Grace is under Partners in Action's administrative umbrella. The chief executive officer of Partners in Action also stated that "Partners in Action helped [Mission of Grace] get back on their feet both financially and administratively when they had no financial support and no proper leadership. Partners in Action temporarily provided financial support and administrative support to help them get back on their feet. They are still under our administrative umbrella…" Also, while Partners in Action and Mission of Grace have separate accounts and funds, they have a group banking arrangement with Bank of America so both of its names appear on the Mission of Grace's bank statements.

We agree that Partners in Action is not the parent organization of AHP and Mission of Grace is a separate entity from Partners in Action; however, there is an affiliation between Partners in Action, Mission of Grace, and AHP as demonstrated by their Web sites and officers listed for each organization.

- The Web sites for AHP and Mission of Grace state that AHP is a subordinate organization under the umbrella of Partners in Action and Mission of Grace is an affiliate of Partners in Action.
- The chief operating officer of AHP is also the president of both Partners in Action and Mission of Grace[35].
- Both AHP and the statutory agent for Mission of Grace have the same mailing address as Partners in Action[35].

Comment 6 We disagree with The Lending Company's statement that the audit report makes suggestions that AHP owns or controls Mission of Grace. There are no statements in the audit report with such suggestions. Rather, the audit report states that Partners in Action was the parent organization of AHP and Mission of Grace was under Partners in Action's administrative umbrella. However, the audit report has been updated to reflect that AHP is a subordinate organization under the umbrella of Partners in Action. See also comment 5.

Comment 7 The Lending Company took exception to the audit report statement that it took steps to circumvent HUD requirements. As stated in comment 2, OIG acknowledges that The Lending Company conferred with a HUD QAD official regarding the AHP gift program. However, the details of the conversation are in question as there is no documented evidence of the complete details of that conversation. As discussed in comment 2, there is no way to determine if The Lending Company presented all the facts and relevant details of its second gift program when it discussed the issue with HUD. At the very least, it appears The Lending Company structured its second gift program in a manner to work around HUD regulations. We obtained a letter dated October 4, 2010 from a lender to The Lending Company stating the gift program with FHR was not appropriate. We believe The Lending Company restructured its second gift program with AHP based on this correspondence and not because of discussion with a HUD QAD official. Finding 1 of the audit report has been revised to reflect this information. In consideration of The Lending Company's comments, the audit report has also been updated and the statement that The Lending Company took steps to circumvent HUD requirements was revised.

Comment 8 The Lending Company's response states that a HUD QAD official communicated with both The Lending Company and its investors regarding the AHP gift program and its compliance with HUD regulations. However, The Lending

[35] According to public filings with the Arizona Corporation Commission.

Company did not provide any documentation, email communication, or other evidence during the audit fieldwork to support this statement. The seven emails provided as part of its response to the draft audit report between The Lending Company CEO and the HUD QAD official, appear to be mostly out of context, do not relate to the AHP gift program and do not evidence any type of HUD approval. Specifically:

- The emails dated November 12, 2010 related to the first gift program with FHR and do not reference the second gift program with AHP. According to the HUD QAD official, the emails reference to a "2nd program" refers to a secondary financing Native American program.

- The emails dated March 8 and March 9, 2010 occurred well before HUD's review in October 2010, when it notified The Lending Company of the unallowable FHR gift program.

- The email dated March 28, 2012 informed The Lending Company that gifts from a nonprofit organization do not require HUD approval. However, this is in regard to an outright gift and not one where the lender reimburses (plus a fee) the nonprofit or related entity.

Comment 9 The Lending Company provided explanations for four of the nine loans identified in the audit report with material underwriting deficiencies. However, The Lending Company's response does not directly address any of the underwriting deficiencies that were detailed in the audit report. Therefore, the report remains unchanged. The underwriting deficiencies that were considered to be technical were not detailed in the audit report because they did not result in a significant increase in mortgage risk and did not impact the insurability of the loan. However, such technical deficiencies in conjunction with the material deficiencies were indicative of significant control weaknesses.

Comment 10 We agree with The Lending Company that there is a two year retention requirement for quality control files. However, this requirement does not prevent the OIG from requesting and reviewing records it deems significantly relevant to an audit objective. The nine FHA loans that were required to be reviewed for September (five loans) and October 2008 (four loans) were outside the two year retention requirement. We requested the monthly quality control logs that identified the FHA loans for September and October 2008 but none were provided. Because 9 of the 22 loans did predate the two year retention requirement and the records were not maintained, the audit report has been amended and the nine loans were removed from the report. However, the remaining details of finding 3 remain unchanged. Although it was beyond the two year retention requirement, the November 2009 quality control log that identified the number of FHA loans reviewed was provided by The Lending Company and therefore, was reviewed. The remaining two months, January and

August 2011, were within the two year retention requirement because the documentation was received on October 23, 2012.

Comment 11 We disagree with The Lending Company's statement that its internal quality control practices meet or exceed HUD quality control regulations and guidelines. Our audit determined that The Lending Company did not always comply with HUD quality control requirements. As stated in the audit report, The Lending Company did not always review at least 10 percent of the loans it originated, did not adequately perform the quality control review of loans, and did not always review its loans that went into default within the first six payments.

Comment 12 We disagree with The Lending Company's statement that its internal quality control practices do not place the FHA insurance fund at an unnecessarily increased risk of loss and FHA experiencing an increased risk of waste, fraud, or abuse. The audit identified weaknesses in The Lending Company's quality control function, which is in place to minimize the risk of waste, fraud, and abuse and ensure FHA loans adhere to HUD regulations. An effective quality control function that adheres to HUD requirements would help identify weaknesses in The Lending Company's operations, including the underwriting of FHA loans, so they could be corrected.

Appendix C

CRITERIA

HUD Handbook 4060.1, REV-2, Paragraph 7-6C

A mortgagee who originates and/or underwrites 3,500 or fewer FHA loans per year must review 10 percent of the FHA loans it originates.

HUD Handbook 4060.1, REV-2, Paragraph 7-6D

In addition to the loans selected for routine reviews, mortgagees must review all loans going into default within the first six payments. As defined here, early payment defaults are loans that become 60 days past due.

HUD Handbook 4060.1, REV-2, Paragraph 7-6E

The quality control program must provide for the review and confirmation of information on all loans selected for review.

1. A new credit report must be obtained for each borrower whose loan is included in a quality control review; unless the loan was a streamline refinance or was processed using a FHA approved automated underwriting system exempted from this requirement.
2. Documents contained in the loan file should be checked for sufficiency and subjected to written reverification. Example of items that must be reverified include, but are not limited to, the mortgagors employment or other income, deposits, gift letters, alternate credit sources, and other sources of funds. Sources of funds must be acceptable as well as verified. Other items that may be reverified include mortgage or rent payments. If the written reverification is not returned to the mortgagee, a documented attempt must be made to conduct a telephone reverification. If the original information was obtained electronically or involved alternative documents, a written reverification must still be attempted.
3. A desk review of the property appraisal must be performed on all loans chosen for a quality control review except streamline refinances and HUD Real Estate Owned sales.

HUD Handbook 4155.1, Paragraph 1.3.f

If the borrower was not employed with the same employer for the previous two years, and has an employment gap of 60 days or greater, the borrower must provide a written explanation for the employment gap.

HUD Handbook 4155.1, REV-5, Paragraph 1-7A

The seller (or other interested third parties such as real estate agents, builders, developers, etc., or a combination of parties) may contribute up to 6% of the property’s sales price toward the buyers actual closing costs, prepaid expenses, discount points, and other financing concessions. Contributions exceeding 6% of the sales price or exceeding the actual costs of prepaid expenses, discount points, and other financing concessions will be treated as inducements to purchase, thereby reducing the amount of the mortgage.

HUD Handbook 4155.1, Paragraph 2.A.2.a

In order for FHA to insure this maximum loan amount, the borrower must make a down payment of at least 3.5 percent of the lesser of the appraised value of the property or the sales price.

HUD Handbook 4155.1, REV-5, Paragraph 2-7D

Commission income must be averaged over the previous two years. The borrower must provide copies of signed tax returns for the last two years, along with the most recent pay stub. (Unreimbursed business expenses must be subtracted from gross income.) Individuals whose commission income shows a decrease from one year to the next require significant compensating factors to allow for loan approval.

HUD Handbook 4155.1, REV-5, Paragraph 2-7M

The gross rental amount must be reduced for vacancies and maintenance by 25 percent (or the percentage developed by the jurisdictional HOC [Homeownership Center]), before subtracting PITI [principal, interest, taxes, and insurance] and any homeowner's association dues, etc., and applying the remainder to income (or recurring debts, if negative).

HUD Handbook 4155.1, REV-5, Paragraph 2-11C

If a debt payment, such as a student loan, is scheduled to begin within twelve months of the mortgage loan closing, the lender must include the anticipated monthly obligation in the underwriting analysis, unless the borrower provides written evidence that the debt will be deferred to a period outside the timeframe.

HUD Handbook 4155.1, REV-5, Paragraph 3-1

The following documents are generally required for mortgage credit analysis in all transactions except for streamline cases "E. VOE [verification of employment] and the borrower's most recent pay stub are to be provided."

HUD Handbook 4155.1, Paragraph 4.D.2.b
(HUD Handbook 4155.1, REV-5, Paragraph 2-7A)

Overtime and bonus income can be used to qualify the borrower for a mortgage if he/she has received this income for the past two years, and it will likely continue. If the employment verification states that this income is unlikely to continue, it may not be used in qualifying.

The lender must develop an average of bonus or overtime income for the past two years. Periods of overtime income and bonus income less than two years may be acceptable, provided the lender can justify and document in writing the reason for using the income for qualifying purposes.

HUD Handbook 4155.1, Paragraph 4.C.4.c

(HUD Handbook 4155.1, REV-5, Paragraph 2-11A)

If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated at the greater of 5 percent of the balance or $10, unless there is a specific monthly payment for the account.

HUD Handbook 4155.1, Paragraph 5.B.4.c

The gift donor may not be a person or entity with an interest in the sale of the property, such as the seller, the real estate agent or broker, the builder, or an associated entity. Gifts from these sources are considered inducements to purchase, and must be subtracted from the sales price.

HUD Handbook 4155, Paragraph 5.B.4.e

As a general rule, FHA is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transaction.

Mortgagee Letter 2004-47

<u>Employment/Income</u>

For loan applications rated as "Accept/Approve," the lender must obtain the single most recent pay stub (showing year-to-date earnings of at least one month) and any one of the following to verify current employment: written verification of employment, verbal verification of employment, electronic verification acceptable to FHA.

<u>Commissioned Individuals</u>

A commissioned applicant is defined as one who receives more than 25 percent of his or her annual income from commissions. For these individuals, obtain and analyze signed federal income tax returns, including all schedules, for the most recent two years and subtract unreimbursed business expenses in underwriting.

24 CFR 203.37a(b)(2), Waiver Requirements

The regulations at 24 CFR 203.37a(b)(2) provide that a mortgage for a property will not be eligible for FHA insurance if the contract of sale for the purchase of the property is executed within 90 days of the prior acquisition by the seller and the seller does not come under any of the specific exemptions that apply to the 90-day rule. This waiver, which took effect on February 1, 2010, is limited to those sales meeting the following conditions:

2. In cases in which the sales price of the property is 20 percent or more over and above the seller's acquisition cost, the waiver will only apply if the lender:
    a. Justifies the increase in value by retaining in the loan file supporting documentation and/or a second appraisal which verifies that the seller has completed sufficient legitimate renovation, repair, and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is performed, the appraiser provides appropriate explanation of the increase in property value since the prior title transfer.

12 U.S.C. 1709(b)(9)(C)

In no case shall the funds required by subparagraph (A) consist, in whole or part, of funds provided by any of the following parties before, during, or after closing of the property sale:

(i) The seller or any other person or entity that financially benefits from the transaction.

(ii) Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in clause (i).

This subparagraph shall apply only to mortgages for which the mortgagee has issued credit approval for the borrower on or after October 1, 2008.

Appendix D

LIST OF LOANS WITH AN UNALLOWABLE GIFT FROM FAMILY HOUSING RESOURCES

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
022-2117219	05/07/10	$ 3,913	A	-	-	$ 147,566	$ -	$ -	$ 84,113
022-2145436	04/30/10	2,260	A	-	-	106,211	-	-	60,540
022-2147907	12/11/09	3,318	A	-	-	123,804	-	-	70,568
022-2160961	03/03/10	4,375	A	-	-	164,042	-	-	93,504
022-2166363	03/10/10	3,600	A	-	-	135,166	-	-	77,045
022-2173653	04/08/10	3,500	A	-	-	131,589	-	-	75,006
022-2174353	04/08/10	2,300	A	-	-	108,091	-	-	61,612
022-2175575	04/09/10	2,400	A	-	-	112,791	-	-	64,291
022-2187471	05/25/10	3,700	A	-	-	140,110	-	-	79,863
022-2191946	06/04/10	3,280	A	-	-	155,031	-	-	88,368
022-2192845	07/02/10	1,630	A	-	-	77,042	875[38]	-	43,914
022-2200873	07/28/10	3,000	A	-	-	142,122	-	-	81,010
022-2201255	06/30/10	2,660	A	-	-	125,845	-	-	71,732
022-2202483	07/09/10	5,125	A	-	-	194,234	-	-	110,713
022-2208904	08/23/10	3,038	A	-	-	114,965	-	-	65,530
023-3033510	05/08/09	3,250	A	-	-	120,040	-	-	68,423
023-3205484	05/29/09	2,356	A	-	-	109,021	-	-	62,142
023-3356668	04/15/09	3,250	A	-	6 months	120,609	-	-	68,747
023-3389751	04/16/09	3,330	A	-	-	153,900	-	-	87,723
023-3430145	05/15/09	3,500	A	-	-	130,234	-	-	74,233
023-3446156	05/07/09	5,425	A	-	21 months	200,869	-	-	114,495
023-3461652	05/27/09	4,175	A	-	-	151,809	-	-	86,531
023-3468910	01/21/10	3,256	A	-	-	122,179	-	-	69,642
023-3497447	06/11/09	2,850	A	-	-	105,677	-	-	60,236
023-3508209	06/04/09	1,960	A	-	-	91,163	-	-	51,963
023-3512584	09/11/09	2,050	A	-	-	76,843	-	-	43,801
023-3552776	06/25/09	2,718	A	-	-	126,587	-	-	72,155
023-3580305	10/09/09	3,669	A	-	-	137,110	-	-	78,153
023-3611171	12/23/09	4,338	A	-	-	161,467	-	-	92,036
023-3637779	09/09/09	4,120	A	-	-	192,842	-	-	109,920
023-3661762	08/31/09	2,486	A	-	9 months	115,806	-	-	66,009
023-3683512	05/28/10	3,748	A	-	-	140,950	-	-	80,342
023-3690201	10/08/09	2,075	A	-	-	77,715	-	-	44,298
023-3720644	10/30/09	3,700	A	-	-	173,221	875[38]	-	98,736
023-3732557	10/15/09	4,500	A	-	-	167,216	-	-	95,313
023-3745488	10/16/09	1,800	A	-	-	84,179	-	-	47,982
023-3766993	11/09/09	2,225	A	-	-	83,264	875[38]	-	47,460
023-3779128	06/10/10	3,375	A	-	-	127,568	-	-	72,714
023-3779945	11/25/09	2,788	A	-	-	104,202	-	-	59,395

[36] A = active; T = terminated; C = claim
[37] The estimated loss amount is based on FHA's 57 percent loss severity rate, multiplied by the unpaid principal balance.
[38] Loss mitigation claim

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-3787442	11/25/09	2,300	A	-	-	107,356	-	-	61,193
023-3787596	11/16/09	4,248	A	-	-	158,952	-	-	90,603
023-3800158	12/02/09	4,248	A	-	-	158,606	-	-	90,405
023-3813174	12/23/09	3,000	A	-	3 months	112,056	-	-	63,872
023-3819539	12/18/09	4,623	A	-	-	172,660	-	-	98,416
023-3820198	12/21/09	3,488	A	-	-	130,407	-	-	74,332
023-3837873	12/23/09	1,800	A	-	-	84,133	-	-	47,956
023-3845718	12/31/09	7,150	A	-	10 months	267,359	-	-	152,395
023-3863339	01/22/10	2,245	A	-	-	83,883	-	-	47,813
023-3863809	06/30/10	2,908	A	-	-	136,785	-	-	77,967
023-3866358	01/19/10	2,940	A	-	-	137,607	-	-	78,436
023-3867411	01/13/10	2,425	A	-	-	90,990	-	-	51,864
023-3867837	12/30/09	6,123	A	-	-	228,937	-	-	130,494
023-3871285	01/13/10	2,375	A	-	-	88,930	-	-	50,690
023-3871312	12/30/09	2,000	A	-	-	93,482	-	-	53,285
023-3875480	01/13/10	4,925	A	-	-	184,412	-	-	105,115
023-3877049	06/22/10	2,727	A	-	-	102,612	-	-	58,489
023-3877242	01/19/10	1,425	A	-	-	53,468	-	-	30,477
023-3887522	01/27/10	2,498	A	-	-	93,710	-	-	53,415
023-3888093	01/29/10	1,750	A	-	-	65,663	-	-	37,428
023-3890039	02/05/10	2,000	A	-	-	93,803	-	-	53,468
023-3890284	02/16/10	2,875	A	-	-	107,799	-	-	61,445
023-3892618	03/02/10	2,622	A	-	-	123,029	-	-	70,127
023-3892942	02/09/10	2,500	A	-	-	94,018	-	-	53,590
023-3893064	01/29/10	2,625	A	-	-	98,291	-	-	56,026
023-3893575	01/29/10	2,650	A	-	5 months	99,631	-	-	56,790
023-3906985	02/16/10	1,600	A	-	-	74,991	-	-	42,745
023-3907583	02/09/10	1,800	A	-	-	84,616	-	-	48,231
023-3912922	02/22/10	2,750	A	-	-	103,617	-	-	59,062
023-3913379	02/12/10	3,200	A	-	-	150,430	-	-	85,745
023-3926372	02/26/10	3,064	A	-	-	115,126	-	-	65,622
023-3932201	03/16/10	3,322	A	-	-	124,734	-	-	71,098
023-3942822	03/31/10	2,440	A	-	4 months	114,516	-	-	65,274
023-3946774	08/03/10	1,610	A	-	-	75,830	-	-	43,223
023-3949837	03/22/10	3,200	A	-	-	120,383	-	-	68,618
023-3951768	03/31/10	4,150	A	-	-	155,817	-	-	88,816
023-3963687	03/30/10	1,380	A	-	-	64,894	-	-	36,990
023-3964805	03/26/10	2,985	A	-	-	139,811	-	-	79,692
023-3965455	04/24/10	2,126	A	-	-	79,940	-	-	45,566
023-3967961	04/16/10	3,058	A	-	-	143,714	-	-	81,917
023-3968626	04/01/10	4,479	A	-	-	168,172	-	-	95,858
023-3970919	04/01/10	1,998	A	-	-	93,772	-	-	53,450
023-3972433	05/19/10	2,500	A	-	-	94,292	-	-	53,746
023-3973372	04/09/10	1,700	A	-	-	79,893	-	-	45,539
023-3977605	04/21/10	2,973	A	-	-	111,968	-	-	63,822
023-3978754	06/11/10	2,625	A	-	-	98,773	-	-	56,301
023-3978891	04/15/10	2,776	A	-	-	130,461	-	-	74,363
023-3980980	04/09/10	2,840	A	-	-	133,469	-	-	76,077
023-3981379	04/09/10	2,363	A	-	-	88,647	-	-	50,529
023-3983124	06/09/10	4,053	A	-	-	152,804	-	-	87,098
023-3983804	04/09/10	2,900	A	-	-	109,031	-	-	62,148
023-3983964	05/03/10	2,125	A	-	-	80,045	-	-	45,626
023-3985834	04/07/10	2,255	A	-	-	84,786	-	-	48,328
023-3986216	04/08/10	3,625	A	-	-	136,289	-	-	77,685
023-3988109	04/23/10	1,820	A	-	-	85,695	-	-	48,846

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-3993302	04/14/10	2,700	A	-	-	126,640	-	-	72,185
023-4002634	04/30/10	2,260	A	-	-	106,211	-	-	60,540
023-4002657	04/26/10	3,375	A	-	-	126,889	-	-	72,327
023-4004092	04/23/10	3,122	A	-	-	117,359	-	-	66,895
023-4008949	04/14/10	4,350	A	-	12 months	164,009	-	-	93,485
023-4009777	05/07/10	1,600	A	-	-	75,434	-	-	42,997
023-4010358	05/04/10	1,910	A	-	-	89,932	875[38]	-	51,261
023-4015253	08/31/10	3,258	A	-	-	122,712	-	-	69,946
023-4015723	06/28/10	4,320	A	-	-	203,567	-	-	116,033
023-4018482	05/28/10	3,345	A	-	-	125,703	-	-	71,651
023-4020486	05/21/10	2,125	A	-	-	80,000	-	-	45,600
023-4021016	06/08/10	2,325	A	-	-	87,955	-	-	50,134
023-4022175	05/25/10	2,320	A	-	-	109,073	-	-	62,172
023-4023467	06/04/10	1,560	A	-	-	73,510	-	-	41,901
023-4026177	04/30/10	3,375	A	-	-	127,248	-	-	72,531
023-4029780	05/03/10	2,800	A	-	4 months	105,471	-	-	60,118
023-4034377	04/30/10	3,499	A	-	-	132,572	-	-	75,566
023-4036933	05/27/10	1,825	A	-	-	69,172	-	-	39,428
023-4037350	05/04/10	1,800	A	-	-	82,174	-	-	46,839
023-4042111	05/25/10	4,825	A	-	-	182,541	-	-	104,048
023-4050833	06/24/10	2,680	A	-	-	126,791	-	-	72,271
023-4051398	06/10/10	4,358	A	-	-	206,737	-	-	117,840
023-4052450	06/02/10	2,450	A	-	-	92,860	-	-	52,930
023-4053172	06/07/10	1,975	A	-	-	74,819	-	-	42,647
023-4053206	05/28/10	3,700	A	-	-	174,809	-	-	99,641
023-4056191	05/26/10	5,800	A	-	-	219,428	-	-	125,074
023-4058502	05/27/10	1,875	A	-	-	71,193	-	-	40,580
023-4059015	05/18/10	5,875	A	-	-	221,841	-	-	126,449
023-4060903	05/21/10	3,625	A	-	-	137,143	-	-	78,172
023-4060961	05/19/10	2,250	A	-	-	85,042	-	-	48,474
023-4061967	05/28/10	2,366	A	-	-	112,202	-	-	63,955
023-4064884	05/21/10	2,680	A	-	-	126,972	-	-	72,374
023-4066118	06/02/10	2,010	A	-	-	94,964	-	-	54,129
023-4068017	06/30/10	3,457	A	-	-	163,409	-	-	93,143
023-4068183	05/27/10	1,325	A	-	-	50,265	-	-	28,651
023-4070368	06/04/10	3,500	A	-	-	132,468	-	-	75,507
023-4075467	06/09/10	2,350	A	-	-	89,024	-	-	50,744
023-4075569	06/10/10	2,869	A	-	-	108,676	-	-	61,945
023-4076269	06/10/10	1,720	A	-	-	81,448	-	-	46,425
023-4077501	06/23/10	3,200	A	-	-	151,803	-	-	86,528
023-4077603	06/15/10	2,975	A	-	-	113,001	-	-	64,411
023-4077836	06/16/10	4,044	A	-	-	153,196	-	-	87,322
023-4079084	06/18/10	2,875	A	-	-	108,912	-	-	62,080
023-4080228	08/11/10	1,488	A	-	-	49,766	-	-	28,367
023-4080286	06/22/10	3,500	A	-	-	132,590	-	-	75,576
023-4081027	06/10/10	3,000	A	-	-	113,544	-	-	64,720
023-4081269	06/14/10	2,125	A	-	-	80,501	200[38]	-	45,886
023-4084032	06/15/10	2,320	A	-	6 months	109,860	-	-	62,620
023-4085884	06/23/10	2,980	A	-	-	112,893	-	-	64,349
023-4091033	06/30/10	3,420	A	-	-	161,649	-	-	92,140
023-4091424	06/30/10	2,900	A	-	16 months	137,326	-	-	78,276
023-4094131	06/25/10	2,039	A	-	-	96,481	-	-	54,994
023-4095058	06/02/10	2,000	A	-	-	94,491	-	-	53,860
023-4096995	06/28/10	2,800	A	-	15 months	105,974	-	-	60,405

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent [31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4098077	06/28/10	2,781	A	-	-	131,431	-	-	74,916
023-4098142	06/11/10	3,522	A	-	-	166,628	-	-	94,978
023-4098241	07/02/10	3,000	A	-	-	113,595	-	-	64,749
023-4099122	06/25/10	3,975	A	-	-	150,584	-	-	85,833
023-4100713	06/30/10	3,000	A	-	-	141,797	-	-	80,824
023-4105972	07/30/10	3,998	A	-	-	189,230	-	-	107,861
023-4106196	07/01/10	2,748	A	-	-	103,987	-	-	59,273
023-4107264	06/24/10	2,520	A	-	-	119,331	-	-	68,019
023-4108854	06/28/10	3,900	A	-	-	184,679	-	-	105,267
023-4109758	06/25/10	4,200	A	-	-	198,516	-	-	113,154
023-4110500	07/14/10	6,100	A	-	-	288,721	-	-	164,571
023-4111121	06/28/10	3,626	A	-	4 months	137,220	-	-	78,215
023-4112293	06/30/10	2,720	A	-	-	128,801	-	-	73,417
023-4114111	06/30/10	3,243	A	-	-	122,835	-	-	70,016
023-4116401	08/19/10	4,125	A	-	-	156,407	-	-	89,152
023-4118194	08/27/10	1,960	A	-	-	92,813	-	-	52,903
023-4118425	06/30/10	2,998	A	-	-	113,449	-	-	64,666
023-4118720	07/13/10	3,563	A	-	-	134,894	-	-	76,890
023-4119551	07/29/10	3,225	A	-	-	122,114	-	-	69,605
023-4120458	07/14/10	2,040	A	-	-	77,314	-	-	44,069
023-4121794	06/30/10	3,375	A	-	-	127,737	-	-	72,810
023-4122045	08/03/10	2,943	A	-	-	110,856	-	-	63,188
023-4122226	06/30/10	1,723	A	-	-	65,252	-	-	37,194
023-4122538	07/20/10	2,498	A	-	-	94,653	-	-	53,952
023-4124580	08/31/10	1,750	A	-	-	82,942	-	-	47,277
023-4126473	08/25/10	2,360	A	-	-	111,445	-	-	63,524
023-4126523	07/20/10	3,290	A	-	-	155,883	-	-	88,853
023-4126756	07/15/10	2,200	A	-	-	104,223	-	-	59,407
023-4127071	07/15/10	2,000	A	-	-	94,748	-	-	54,006
023-4127231	07/09/10	2,800	A	-	-	132,527	-	-	75,540
023-4128792	07/23/10	2,463	A	-	-	93,241	-	-	53,147
023-4133372	08/06/10	3,775	A	-	-	142,089	-	-	80,991
023-4135502	07/22/10	3,300	A	-	-	156,193	875[38]	-	89,030
023-4136356	07/30/10	1,600	A	-	-	75,730	-	-	43,166
023-4137981	08/09/10	5,725	A	-	-	217,075	-	-	123,733
023-4139011	07/29/10	6,300	A	-	-	298,187	-	-	169,967
023-4140656	08/20/10	3,750	A	-	-	142,189	-	-	81,048
023-4141015	07/21/10	2,800	A	-	-	106,021	-	-	60,432
023-4143386	07/26/10	7,250	A	-	-	274,521	-	-	156,477
023-4144527	07/30/10	2,748	A	-	-	104,034	-	-	59,299
023-4147693	07/28/10	2,000	A	-	-	75,730	-	-	43,166
023-4148824	08/04/10	2,300	A	-	-	87,209	-	-	49,709
023-4151490	08/20/10	1,625	A	-	-	61,615	-	-	35,121
023-4152893	07/30/10	2,713	A	-	-	102,708	-	-	58,544
023-4153036	08/09/10	3,350	A	-	-	127,022	-	-	72,403
023-4153377	07/26/10	4,375	A	-	-	165,193	-	-	94,160
023-4155247	08/03/10	8,400	A	-	-	317,773	-	-	181,131
023-4158510	08/12/10	2,550	A	-	-	96,688	-	-	55,112
023-4159935	08/13/10	2,850	A	-	-	108,063	-	-	61,596
023-4164255	08/26/10	2,200	A	-	-	104,084	-	-	59,328
023-4164471	08/20/10	6,125	A	-	-	231,823	-	-	132,139
023-4164652	08/17/10	5,200	A	-	-	246,461	-	-	140,483
023-4166387	08/27/10	3,200	A	-	-	151,395	-	-	86,295
023-4166828	08/20/10	2,280	A	-	-	107,869	-	-	61,485

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4166857	08/13/10	2,913	A	-	-	110,625	-	-	63,056
023-4172120	08/31/10	2,400	A	-	-	113,751	-	-	64,838
023-4175343	08/27/10	1,625	A	-	4 months	61,504	-	-	35,057
023-4175582	08/20/10	4,313	A	-	-	163,222	-	-	93,037
023-4177049	08/25/10	3,475	A	-	-	131,762	-	-	75,104
023-4177577	08/27/10	2,700	A	-	-	127,970	-	-	72,943
023-4178429	09/10/10	2,980	A	-	-	141,188	-	-	80,477
023-4182706	08/31/10	2,918	A	-	-	138,052	-	-	78,690
023-4186714	08/30/10	2,960	A	-	-	140,293	-	-	79,967
023-4191063	09/09/10	3,125	A	-	-	118,446	-	-	67,514
023-4191976	09/03/10	3,450	A	-	-	130,929	-	-	74,630
023-4192119	09/03/10	2,250	A	-	-	106,877	-	-	60,920
023-4198820	09/03/10	3,450	A	-	-	130,578	-	-	74,429
023-4201522	09/07/10	4,873	A	-	-	184,679	-	-	105,267
023-3405043	05/01/09	4,187	C	-	-	-	172,554	90,630	-
023-3610521	8/10/2009	5,000	C	-	-	-	203,707	57,293	-
023-3738123	11/03/09	3,780	C	-	-	-	33,738	33,738	-
023-3980729	04/16/10	3,123	C	-	-	-	26,198	26,198	-
023-4157135	08/27/10	2,660	C	-	-	-	46,725	46,725	-
022-2119213	10/05/09	2,500	T	022-2261945	-	120,092	-	-	68,452
022-2152052	01/11/10	4,550	T	022-2222465	-	173,262	-	-	98,759
022-2161258	02/05/10	3,598	T	022-2382512	-	137,400	-	-	78,318
022-2182445	06/10/10	4,889	T	022-2287256	-	186,827	-	-	106,491
023-3175274	06/11/09	3,593	T	023-4303973	-	136,120	-	-	77,588
023-3356198	05/20/09	2,913	T	023-4112002	-	-	119,457	20,093	-
023-3356651	04/01/09	4,250	T	023-3837952	-	160,888	-	-	91,706
023-3441693	12/01/09	2,500	T	023-4808112	-	94,895	-	-	54,090
023-3499816	06/15/09	2,198	T	023-3929009	-	102,968	-	-	58,692
023-3524486	10/08/09	3,518	T	023-5219775	-	168,242	-	-	95,898
023-3536461	07/01/09	2,659	T	023-3982046	-	124,537	-	-	70,986
023-3542438	10/05/09	3,575	T	023-4782021	-	134,281	-	-	76,540
023-3594514	06/29/10	5,500	T	023-4741723	-	208,488	-	-	118,838
023-3595062	08/31/09	2,248	T	023-4179056	-	84,638	-	-	48,244
023-3606579	8/12/2009	7,950	T	023-3986800	-	298,792	-	-	170,311
023-3623078	08/21/09	5,000	T	023-4242352	-	160,862	-	-	91,691
023-3635531	08/28/09	4,980	T	023-4206066	-	235,756	-	-	134,381
023-3643095	08/31/09	3,000	T	023-4182157	-	113,507	-	-	64,699
023-3645260	09/02/09	3,350	T	023-4304349	-	126,100	-	-	71,877
023-3645310	09/04/09	3,700	T	023-4097059	-	176,558	-	-	100,638
023-3648510	09/25/09	4,125	T	023-4118483	-	155,792	-	-	88,801
023-3655954	11/12/09	3,825	T	023-4271683	-	145,400	-	-	82,878
023-3656893	09/15/09	4,050	T	023-4074715	-	154,072	-	-	87,821
023-3657325	01/15/10	2,780	T	023-4303792	-	132,615	-	-	75,591
023-3660490	08/28/09	3,900	T	023-4180054	-	184,219	-	-	105,005
023-3682342	10/09/09	5,125	T	023-4165999	-	194,223	-	-	110,707
023-3683722	10/14/09	2,900	T	023-4294711	-	137,333	-	-	78,280
023-3704664	10/26/09	3,800	T	023-4166863	-	178,985	-	-	102,021
023-3710942	10/13/09	2,860	T	023-4178493	-	136,524	-	-	77,819
023-3726154	01/26/10	3,570	T	023-4301496	-	135,526	-	-	77,250
023-3738520	10/20/09	3,175	T	023-4967758	-	120,807	-	-	68,860
023-3761740	11/06/09	2,575	T	023-5223582	-	98,182	-	-	55,964
023-3770308	11/17/09	2,900	T	023-4289562	-	137,642	-	-	78,456
023-3778609	11/25/09	4,600	T	023-4099349	-	219,544	-	-	125,140
023-3787675	11/17/09	1,380	T	023-5131588	-	87,962	-	-	50,138
023-3801777	11/20/09	2,100	T	023-4665550	-	98,846	-	-	56,342

Case number	Closing date	Gift amount	Loan status[36]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-3804455	11/30/09	2,480	T	023-4223511	-	117,503	-	-	66,977
023-3812553	11/24/09	3,250	T	023-4298578	-	122,974	-	-	70,095
023-3831710	06/01/10	2,780	T	023-4818394	-	131,565	-	-	74,992
023-3855781	12/15/09	4,473	T	023-5176873	-	172,012	-	-	98,047
023-3884237	01/26/10	3,125	T	023-4931391	-	118,880	-	-	67,762
023-3887437	04/13/10	5,807	T	023-5114290	-	220,835	-	-	125,876
023-3903082	02/04/10	2,600	T	023-4935312	-	122,284	-	-	69,702
023-3929464	03/03/10	2,600	T	023-4299760	-	123,351	-	-	70,310
023-3930246	03/03/10	1,758	T	023-4835748	-	83,139	-	-	47,389
023-3943370	03/03/10	3,200	T	023-4298380	-	122,335	-	-	69,731
023-3947156	03/12/10	4,975	T	023-4751069	-	188,691	-	-	107,554
023-3948644	03/12/10	3,281	T	023-4374767	-	157,865	-	-	89,983
023-3951882	03/25/10	6,430	T	023-4738338	-	303,738	-	-	173,131
023-3961027	03/16/10	6,130	T	023-5044098	-	220,558	-	-	125,718
023-3968212	04/05/10	3,525	T	023-4772870	-	133,593	-	-	76,148
023-3977187	04/13/10	2,998	T	023-4990485	-	143,341	-	-	81,704
023-3981181	04/06/10	1,373	T	023-5012819	-	52,882	-	-	30,143
023-3992257	05/13/10	3,538	T	023-4634104	-	168,455	-	-	96,019
023-4006189	04/30/10	3,188	T	023-4792222	-	120,364	-	-	68,607
023-4015933	06/24/10	3,498	T	023-4749910	-	132,473	-	-	75,510
023-4018578	05/28/10	2,521	T	023-5098117	-	120,861	-	-	68,891
023-4018640	06/28/10	3,594	T	023-4622266	-	169,757	-	-	96,761
023-4020798	04/20/10	6,155	T	023-4820165	-	233,276	-	-	132,967
023-4031233	05/04/10	4,748	T	023-5040202	-	183,365	-	-	104,518
023-4053382	06/16/10	6,799	T	023-4895633	-	260,809	-	-	148,661
023-4056054	06/11/10	3,150	T	023-4875747	-	151,130	-	-	86,144
023-4056474	05/28/10	3,125	T	023-4660813	-	124,461	-	-	70,943
023-4061944	06/14/10	2,238	T	023-5098123	-	108,244	-	-	61,699
023-4072579	05/27/10	4,576	T	023-4796355	-	174,311	-	-	99,357
023-4078910	05/25/10	3,375	T	023-4477137	-	127,858	-	-	72,879
023-4087176	06/04/10	5,125	T	023-4652575	-	195,468	-	-	111,417
023-4090928	06/30/10	1,875	T	023-5116749	-	71,739	-	-	40,891
023-4102092	06/25/10	3,248	T	023-4743477	-	123,151	-	-	70,196
023-4105581	06/29/10	2,150	T	023-5137703	-	103,428	-	-	58,954
023-4112191	06/18/10	3,270	T	023-4839943	-	155,202	-	-	88,465
023-4112212	07/13/10	2,125	T	023-4796883	-	80,868	-	-	46,095
023-4115181	06/30/10	4,890	T	023-5051835	-	188,561	-	-	107,480
023-4155542	08/10/10	3,960	T	023-4724607	-	188,976	-	-	107,716
023-4185249	08/31/10	5,675	T	023-4819150	-	210,065	-	-	119,737
023-4190958	09/22/10	2,460	T	023-4879863	-	117,185	-	-	66,795
023-4207481	09/10/10	5,125	T	023-4857845	-	196,478	-	-	111,992
Totals					**14**	**$ 38,669,742**	**$ 602,379[39]**	**$ 274,677**	**$ 22,041,754**

[39] Loss mitigation claims are not included in the total.

Appendix E

LIST OF LOANS WITH AN UNALLOWABLE GIFT FROM AFFORDABLE HOUSING PARTNERS

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
022-2218918	09/30/10	$ 2,638	A	-	-	$ 99,967	$ -	$ -	$ 56,981
022-2219624	10/01/10	1,980	A	-	-	93,809	-	-	53,471
022-2285698	08/31/11	2,440	A	-	-	115,661	-	-	65,927
022-2286300	09/02/11	2,800	A	-	-	106,273	-	-	60,576
022-2298980	11/18/11	5,372	A	-	-	204,404	-	-	116,510
022-2305104	12/23/11	2,950	A	-	-	112,460	-	-	64,102
022-2305474	03/05/12	2,425	A	-	-	92,675	-	-	52,825
022-2305599	12/16/11	2,200	A	-	-	83,827	-	-	47,781
022-2306507	02/29/12	2,087	A	-	-	79,776	-	-	45,472
022-2308310	01/06/12	1,625	A	-	-	62,010	-	-	35,346
022-2312945	02/10/12	3,747	A	-	-	143,204	-	-	81,626
022-2317437	03/06/12	3,347	A	-	-	127,929	-	-	72,920
022-2321159	03/22/12	5,500	A	-	-	210,500	-	-	119,985
023-3953116	11/19/10	4,425	A	-	-	167,231	-	-	95,322
023-4014372	09/22/10	3,047	A	-	-	143,683	-	-	81,899
023-4018526	10/12/10	3,064	A	-	-	115,755	-	-	65,980
023-4029479	11/22/10	1,720	A	-	-	81,184	-	-	46,275
023-4090021	11/03/10	2,640	A	-	5 months	125,256	-	-	71,396
023-4109907	10/13/10	6,875	A	-	-	260,949	-	-	148,741
023-4134020	10/28/10	2,313	A	-	-	87,773	-	-	50,031
023-4154690	11/05/10	4,100	A	-	-	194,638	-	-	110,944
023-4189184	10/08/10	1,980	A	-	-	93,942	-	-	53,547
023-4189517	09/17/10	8,850	A	-	-	334,832	-	-	190,854
023-4191238	09/16/10	3,475	A	-	-	131,712	-	-	75,076
023-4193786	09/24/10	2,618	A	-	-	95,597	-	-	54,490
023-4195427	09/28/10	1,960	A	-	-	92,861	-	-	52,931
023-4199096	09/15/10	4,000	A	-	-	189,170	-	-	107,827
023-4200381	10/28/10	2,000	A	-	7 months	75,913	-	-	43,270
023-4214004	09/22/10	2,250	A	-	-	85,430	-	-	48,695
023-4214765	09/21/10	3,798	A	-	-	179,781	-	-	102,475
023-4218925	09/23/10	6,250	A	-	-	236,892	-	-	135,028
023-4221562	09/22/10	3,750	A	-	-	142,007	-	-	80,944
023-4226792	10/08/10	3,322	A	-	-	157,068	-	-	89,529
023-4227066	09/28/10	5,628	A	-	-	213,702	-	-	121,810
023-4230404	10/14/10	2,250	A	-	-	85,402	-	-	48,679
023-4231813	09/30/10	3,250	A	-	-	123,183	-	-	70,214

[40] A = active; T = terminated; C = claim

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4231915	09/10/10	2,125	A	-	-	80,684	-	-	45,990
023-4232457	09/21/10	1,320	A	-	-	62,539	-	-	35,647
023-4237381	10/06/10	2,500	A	-	-	94,756	-	-	54,011
023-4238329	09/28/10	5,500	A	-	-	208,464	-	-	118,824
023-4240339	12/28/10	3,212	A	-	-	122,110	-	-	69,603
023-4241203	09/27/10	4,475	A	-	-	169,614	-	-	96,680
023-4241827	09/29/10	3,873	A	-	-	141,188	-	-	80,477
023-4242300	10/08/10	4,050	A	-	-	153,723	-	-	87,622
023-4248486	10/27/10	2,580	A	-	-	118,814	-	-	67,724
023-4250473	10/07/10	2,000	A	-	-	86,291	-	-	49,186
023-4250966	10/25/10	2,998	A	-	-	113,675	-	-	64,795
023-4251302	10/28/10	3,054	A	-	-	115,946	-	-	66,089
023-4256549	10/13/10	2,375	A	-	-	90,146	-	-	51,383
023-4257567	10/22/10	2,770	A	-	-	131,424	-	-	74,912
023-4264971	12/21/10	4,500	A	-	-	171,146	-	-	97,553
023-4267269	11/02/10	7,424	A	-	-	281,530	-	-	160,472
023-4268048	10/25/10	2,375	A	-	-	90,298	-	-	51,470
023-4269282	03/22/11	1,697	A	-	-	81,238	-	-	46,306
023-4270274	10/28/10	2,348	A	-	-	90,068	-	-	51,339
023-4270715	12/07/10	6,345	A	-	-	241,319	-	-	137,552
023-4272302	10/27/10	1,970	A	-	-	93,385	-	-	53,229
023-4274898	04/08/11	2,902	A	-	-	139,070	-	-	79,270
023-4276928	10/22/10	3,850	A	-	-	145,612	-	-	82,999
023-4284543	11/18/10	4,274	A	-	-	202,756	-	-	115,571
023-4287523	10/21/10	2,800	A	-	-	132,732	-	-	75,657
023-4289110	11/12/10	3,247	A	-	-	123,228	-	-	70,240
023-4294416	10/29/10	3,749	A	-	-	142,203	-	-	81,056
023-4295860	11/04/10	1,600	A	-	-	75,956	-	-	43,295
023-4296481	11/01/10	3,568	A	-	-	168,989	-	-	96,324
023-4296610	10/26/10	4,200	A	-	10 months	159,278	-	-	90,788
023-4296649	11/02/10	2,918	A	-	4 months	138,203	-	-	78,776
023-4296656	11/23/10	2,925	A	-	-	111,179	-	-	63,372
023-4298765	11/29/10	4,050	A	-	-	153,680	-	-	87,598
023-4305583	10/28/10	3,100	A	-	-	146,558	-	-	83,538
023-4310793	11/02/10	4,464	A	-	-	169,318	-	-	96,511
023-4311391	11/18/10	2,575	A	-	-	97,793	-	-	55,742
023-4313804	04/11/11	3,100	A	-	-	119,236	-	-	67,965
023-4317893	11/08/10	3,358	A	-	-	157,329	-	-	89,678
023-4324104	11/03/10	2,550	A	-	-	98,575	-	-	56,188
023-4324547	11/12/10	3,687	A	-	-	138,213	-	-	78,781
023-4325457	11/17/10	1,998	A	-	-	93,690	-	-	53,403
023-4330355	11/17/10	1,458	A	-	-	68,368	-	-	38,970
023-4331213	11/18/10	2,238	A	-	-	104,854	-	-	59,767
023-4331350	11/12/10	4,738	A	-	-	177,569	-	-	101,214
023-4332940	11/19/10	5,820	A	-	-	267,972	-	-	152,744

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4333742	11/19/10	4,748	A	-	-	177,944	-	-	101,428
023-4334600	11/30/10	2,122	A	-	-	79,554	-	-	45,346
023-4334840	11/22/10	2,660	A	-	-	124,409	-	-	70,913
023-4335641	11/17/10	3,050	A	-	-	114,319	-	-	65,162
023-4339007	12/07/10	3,225	A	-	-	121,154	-	-	69,058
023-4340352	12/06/10	2,120	A	-	-	99,471	-	-	56,698
023-4340542	11/24/10	1,675	A	-	-	62,782	-	-	35,786
023-4341098	11/30/10	3,725	A	-	-	139,619	-	-	79,583
023-4341160	12/07/10	2,300	A	-	-	86,333	-	-	49,210
023-4342143	11/30/10	2,380	A	-	-	111,508	-	-	63,560
023-4342330	11/23/10	2,080	A	-	4 months	97,535	-	-	55,595
023-4343920	11/24/10	2,247	A	-	-	84,239	-	-	48,016
023-4347820	11/18/10	2,475	A	-	-	92,846	-	-	52,922
023-4349027	12/22/10	1,598	A	-	-	71,548	-	-	40,782
023-4349220	12/03/10	2,422	A	-	-	91,007	-	-	51,874
023-4351180	12/17/10	2,212	A	-	-	83,185	-	-	47,415
023-4351197	12/02/10	4,250	A	-	-	159,530	-	-	90,932
023-4351700	12/20/10	2,140	A	-	-	100,492	-	-	57,280
023-4353832	12/22/10	1,180	A	-	-	55,362	-	-	31,556
023-4354401	12/16/10	1,930	A	-	-	90,704	-	-	51,701
023-4357125	12/09/10	2,200	A	-	-	84,526	-	-	48,180
023-4357393	12/07/10	4,125	A	-	-	154,838	-	-	88,258
023-4357618	12/28/10	2,475	A	-	-	93,272	-	-	53,165
023-4361845	01/27/11	2,200	A	-	-	82,956	-	-	47,285
023-4361851	01/11/11	4,225	A	-	-	159,313	-	-	90,808
023-4362755	12/15/10	3,820	A	-	-	179,385	-	-	102,249
023-4365360	12/14/10	3,373	A	-	-	126,638	-	-	72,184
023-4367276	12/17/10	2,680	A	-	-	125,851	-	-	71,735
023-4370745	01/05/11	3,147	A	-	-	147,682	-	-	84,179
023-4372247	12/20/10	2,250	A	-	-	84,728	-	-	48,295
023-4374441	01/05/11	3,975	A	-	-	149,687	-	-	85,322
023-4374595	12/29/10	3,375	A	-	-	127,189	-	-	72,498
023-4374616	12/23/10	1,450	A	-	-	68,336	-	-	38,952
023-4375640	12/21/10	2,500	A	-	-	93,919	-	-	53,534
023-4379796	01/26/11	2,500	A	-	-	94,126	-	-	53,652
023-4380900	01/10/11	3,422	A	-	-	129,053	-	-	73,560
023-4382300	12/30/10	3,750	A	-	-	141,213	-	-	80,491
023-4382556	01/07/11	2,498	A	-	-	94,103	-	-	53,639
023-4384245	12/30/10	2,875	A	-	-	108,346	-	-	61,757
023-4387497	01/19/11	2,200	A	-	-	103,771	-	-	59,149
023-4388962	02/11/11	1,340	A	-	-	63,332	-	-	36,099
023-4389344	01/19/11	1,425	A	-	-	53,733	-	-	30,628
023-4390450	01/20/11	3,475	A	-	-	131,033	-	-	74,689
023-4392480	01/25/11	1,725	A	-	-	65,044	-	-	37,075
023-4392807	01/21/11	2,275	A	-	3 months	85,784	-	-	48,897

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4394105	01/20/11	2,300	A	-	-	108,488	-	-	61,838
023-4395304	01/31/11	2,183	A	-	-	102,932	-	-	58,671
023-4396886	01/28/11	3,625	A	-	-	136,689	-	-	77,913
023-4399959	01/28/11	2,172	A	-	-	81,918	-	-	46,693
023-4403373	02/09/11	1,800	A	-	-	84,954	-	-	48,424
023-4406958	03/04/11	2,120	A	-	-	100,056	-	-	57,032
023-4407034	02/03/11	2,700	A	-	-	127,431	-	-	72,636
023-4410634	02/11/11	2,075	A	-	-	78,346	-	-	44,657
023-4412317	03/14/11	1,800	A	-	-	68,053	-	-	38,790
023-4413755	03/10/11	2,320	A	-	-	99,244	-	-	56,569
023-4419423	03/15/11	2,800	A	-	-	132,326	-	-	75,426
023-4419691	03/29/11	1,935	A	-	-	73,156	-	-	41,699
023-4420190	03/22/11	2,375	A	-	-	89,792	-	-	51,181
023-4427494	03/08/11	7,125	A	-	-	269,561	-	-	153,650
023-4430254	05/16/11	2,340	A	-	-	88,701	-	-	50,560
023-4431503	02/22/11	2,300	A	-	-	86,963	-	-	49,569
023-4434965	03/11/11	1,862	A	-	-	70,463	-	-	40,164
023-4436864	03/08/11	2,497	A	-	-	94,423	-	-	53,821
023-4439168	03/10/11	2,135	A	-	-	80,828	-	-	46,072
023-4441937	03/22/11	2,625	A	-	-	99,312	-	-	56,608
023-4443156	05/04/11	2,027	A	-	-	76,752	-	-	43,749
023-4445128	03/28/11	1,155	A	-	-	72,779	-	-	41,484
023-4446554	03/30/11	2,000	A	-	-	75,615	-	-	43,101
023-4448617	05/31/11	3,140	A	-	-	118,948	-	-	67,800
023-4452187	03/22/11	2,000	A	-	-	75,615	-	-	43,101
023-4453022	03/24/11	2,738	A	-	-	103,496	-	-	58,993
023-4454339	03/29/11	1,600	A	-	-	75,615	-	-	43,101
023-4455601	04/08/11	2,300	A	-	-	87,070	-	-	49,630
023-4461784	03/31/11	2,450	A	-	-	92,627	-	-	52,797
023-4464270	04/14/11	3,150	A	-	-	119,249	-	-	67,972
023-4465043	04/15/11	2,860	A	-	3 months	135,338	-	-	77,143
023-4467429	04/15/11	2,310	A	-	-	87,543	-	-	49,900
023-4468418	04/11/11	2,160	A	-	-	102,214	-	-	58,262
023-4469363	05/04/11	3,858	A	-	-	182,320	-	-	103,922
023-4472152	04/15/11	2,425	A	-	-	91,803	-	-	52,328
023-4474363	11/10/11	2,996	A	-	-	114,141	-	-	65,060
023-4474681	04/28/11	2,500	A	-	-	94,642	-	-	53,946
023-4481495	04/20/11	1,200	A	-	-	56,786	-	-	32,368
023-4484144	04/28/11	1,710	A	-	-	64,717	-	-	36,889
023-4485740	04/22/11	4,262	A	-	-	161,037	875[38]	-	91,791
023-4486638	06/17/11	2,043	A	-	-	77,230	-	-	44,021
023-4486781	06/14/11	2,497	A	-	-	94,677	-	-	53,966
023-4490031	05/16/11	3,600	A	-	-	170,579	-	-	97,230
023-4490229	05/09/11	1,580	A	-	-	74,865	-	-	42,673
023-4490915	05/06/11	2,260	A	-	-	107,085	-	-	61,038

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4492084	04/27/11	2,375	A	-	-	89,020	-	-	50,741
023-4492843	04/29/11	2,625	A	-	-	99,374	-	-	56,643
023-4494815	04/27/11	3,334	A	-	-	157,768	-	-	89,928
023-4496005	05/20/11	2,000	A	-	-	75,813	-	-	43,213
023-4499546	05/05/11	3,550	A	-	-	134,568	-	-	76,704
023-4501084	05/12/11	1,600	A	-	-	60,650	-	-	34,571
023-4501633	04/28/11	1,380	A	-	-	65,302	-	-	37,222
023-4507800	05/24/11	2,638	A	-	-	124,839	-	-	71,158
023-4508660	10/05/11	4,762	A	-	-	180,936	-	-	103,134
023-4508858	05/10/11	1,822	A	-	-	69,083	-	-	39,377
023-4516122	05/10/11	1,350	A	-	-	63,965	-	-	36,460
023-4518406	05/17/11	3,748	A	-	-	142,053	-	-	80,970
023-4522163	07/29/11	2,999	A	-	-	113,801	-	-	64,867
023-4523537	06/13/11	3,200	A	-	-	121,458	-	-	69,231
023-4527886	06/24/11	1,900	A	-	-	75,854	-	-	43,237
023-4530471	06/01/11	2,575	A	-	-	97,483	-	-	55,565
023-4532790	06/01/11	2,625	A	-	-	99,441	-	-	56,681
023-4533330	06/22/11	1,625	A	-	-	61,779	-	-	35,214
023-4534190	10/05/11	3,302	A	-	-	125,601	-	-	71,593
023-4537139	07/11/11	3,240	A	-	-	153,739	-	-	87,631
023-4538288	06/06/11	2,800	A	-	-	106,078	-	-	60,464
023-4539412	06/17/11	2,498	A	-	-	94,618	-	-	53,932
023-4539957	06/20/11	1,980	A	-	-	93,705	-	-	53,412
023-4540196	06/24/11	3,447	A	-	4 months	130,690	-	-	74,493
023-4544137	06/17/11	4,398	A	-	-	208,140	-	-	118,640
023-4545476	06/10/11	4,905	A	-	-	232,134	-	-	132,316
023-4547352	06/22/11	3,300	A	-	-	125,020	-	-	71,261
023-4548922	06/20/11	2,070	A	-	-	78,372	-	-	44,672
023-4553699	07/05/11	2,140	A	-	-	101,277	-	-	57,728
023-4554166	07/01/11	2,125	A	-	-	80,454	-	-	45,859
023-4555190	06/27/11	5,122	A	-	-	193,941	-	-	110,546
023-4556620	06/30/11	4,475	A	-	-	169,427	-	-	96,573
023-4558638	06/29/11	2,750	A	-	-	104,117	-	-	59,347
023-4559026	07/27/11	2,600	A	-	-	98,576	-	-	56,188
023-4560286	07/06/11	2,750	A	-	-	104,184	-	-	59,385
023-4560371	06/30/11	3,300	A	-	-	125,020	-	-	71,261
023-4560625	07/06/11	5,323	A	-	-	201,643	-	-	114,937
023-4560654	07/12/11	6,247	A	-	-	236,867	-	-	135,014
023-4564951	07/29/11	2,475	A	-	-	93,895	-	-	53,520
023-4568281	06/30/11	3,160	A	-	-	149,646	-	-	85,298
023-4569312	07/20/11	1,720	A	-	-	81,614	-	-	46,520
023-4570911	08/02/11	3,180	A	-	-	150,708	-	-	85,904
023-4571158	07/25/11	2,080	A	-	-	99,555	-	-	56,746
023-4572311	07/26/11	2,980	A	-	-	141,401	-	-	80,599
023-4574551	07/19/11	1,658	A	-	-	78,669	-	-	44,841

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4575087	08/04/11	2,600	A	-	-	98,576	-	-	56,188
023-4577990	07/22/11	2,100	A	-	-	99,524	-	-	56,729
023-4581240	08/29/11	2,900	A	-	-	110,105	-	-	62,760
023-4592079	08/05/11	2,200	A	-	-	104,409	-	-	59,513
023-4592339	07/28/11	3,875	A	-	-	146,917	-	-	83,743
023-4592969	08/03/11	2,400	A	-	-	113,880	-	-	64,912
023-4594483	08/10/11	4,125	A	-	-	156,614	-	-	89,270
023-4595732	07/29/11	4,338	A	-	-	164,452	-	-	93,738
023-4597690	08/05/11	2,000	A	-	-	75,828	-	-	43,222
023-4600487	08/12/11	2,912	A	-	-	110,579	-	-	63,030
023-4613772	04/03/12	3,802	A	-	-	145,518	-	-	82,945
023-4614072	08/25/11	2,750	A	-	-	104,414	-	-	59,516
023-4614609	08/31/11	2,920	A	-	-	138,497	-	-	78,943
023-4615061	08/31/11	2,375	A	-	-	90,171	-	-	51,397
023-4618101	08/26/11	3,486	A	-	-	132,373	-	-	75,453
023-4619579	09/16/11	5,425	A	-	3 months	205,905	-	-	117,366
023-4620939	08/31/11	6,000	A	-	-	227,668	-	-	129,771
023-4622532	11/18/11	2,125	A	-	-	80,934	-	-	46,132
023-4626852	11/02/11	3,875	A	-	-	147,373	-	-	84,003
023-4629110	09/19/11	4,375	A	-	-	166,148	-	-	94,704
023-4629468	11/04/11	2,472	A	-	-	94,168	-	-	53,676
023-4631093	09/29/11	3,500	A	-	-	132,842	-	-	75,720
023-4631114	09/16/11	2,138	A	-	-	81,222	-	-	46,297
023-4631222	09/27/11	3,372	A	-	-	127,925	-	-	72,917
023-4637905	10/06/11	2,875	A	-	-	109,219	-	-	62,255
023-4638424	11/08/11	2,050	A	-	-	77,995	-	-	44,457
023-4638453	09/29/11	2,875	A	-	-	109,183	-	-	62,234
023-4639101	09/29/11	3,725	A	-	-	139,982	-	-	79,790
023-4639494	09/30/11	3,347	A	-	-	127,123	-	-	72,460
023-4640644	10/28/11	3,500	A	-	-	133,111	-	-	75,873
023-4644118	09/26/11	4,200	A	-	-	159,503	-	-	90,917
023-4646285	09/21/11	2,400	A	-	-	113,931	-	-	64,941
023-4647484	11/28/11	3,550	A	-	-	135,065	-	-	76,987
023-4647528	09/29/11	2,837	A	-	-	107,821	-	-	61,458
023-4647902	09/29/11	3,725	A	-	-	141,297	-	-	80,539
023-4648211	09/29/11	2,750	A	-	-	104,250	-	-	59,423
023-4651703	09/29/11	3,497	A	-	-	132,668	-	-	75,621
023-4656492	10/07/11	3,750	A	-	-	142,460	-	-	81,202
023-4657793	10/28/11	2,590	A	-	-	123,134	-	-	70,186
023-4657951	10/13/11	3,175	A	-	-	120,684	-	-	68,790
023-4661457	10/05/11	3,750	A	-	-	142,479	-	-	81,213
023-4663832	10/17/11	2,450	A	-	-	93,074	-	-	53,052
023-4666250	01/31/12	4,120	A	-	-	157,243	-	-	89,629
023-4666845	10/24/11	3,062	A	-	-	116,408	-	-	66,353
023-4670847	10/21/11	2,750	A	-	-	104,529	-	-	59,582

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4671874	11/02/11	2,675	A	-	-	101,679	-	-	57,957
023-4677463	12/21/11	3,125	A	-	-	119,073	-	-	67,872
023-4681031	11/10/11	1,500	A	-	-	71,337	-	-	40,662
023-4684304	02/24/12	4,761	A	-	-	181,976	-	-	103,726
023-4685555	11/04/11	2,700	A	-	-	102,833	-	-	58,615
023-4689189	11/17/11	2,250	A	-	-	85,694	-	-	48,846
023-4697308	11/08/11	2,706	A	-	-	102,963	-	-	58,689
023-4702098	11/21/11	2,297	A	-	-	87,411	-	-	49,824
023-4702183	12/02/11	2,750	A	-	-	104,628	-	-	59,638
023-4706626	11/29/11	4,620	A	-	-	219,719	-	-	125,240
023-4709067	12/14/11	2,750	A	-	-	104,836	-	-	59,757
023-4714231	12/15/11	3,775	A	-	-	143,912	-	-	82,030
023-4721748	02/29/12	3,274	A	-	-	125,141	-	-	71,330
023-4725625	01/19/12	4,372	A	-	-	166,853	-	-	95,106
023-4726614	12/29/11	4,058	A	-	-	154,647	-	-	88,149
023-4728696	02/03/12	4,525	A	-	-	173,004	-	-	98,612
023-4730076	12/22/11	2,740	A	-	-	130,504	-	-	74,387
023-4730654	02/03/12	2,612	A	-	-	99,692	-	-	56,824
023-4730733	12/30/11	3,050	A	-	-	116,215	-	-	66,243
023-4732110	12/30/11	1,625	A	-	-	61,918	-	-	35,293
023-4734017	01/09/12	2,689	A	-	-	128,300	-	-	73,131
023-4735009	12/30/11	2,925	A	-	-	110,007	-	-	62,704
023-4736671	01/19/12	2,247	A	-	-	85,804	-	-	48,908
023-4742929	01/30/12	5,083	A	-	-	193,977	-	-	110,567
023-4747167	01/18/12	3,875	A	-	-	147,869	-	-	84,285
023-4749405	01/23/12	2,200	A	-	-	83,952	-	-	47,853
023-4749848	01/20/12	2,300	A	-	-	87,767	-	-	50,027
023-4751149	01/27/12	4,323	A	-	-	164,969	-	-	94,032
023-4751631	01/24/12	2,140	A	-	-	102,078	-	-	58,184
023-4754723	02/01/12	3,300	A	-	-	125,927	-	-	71,778
023-4755294	01/25/12	4,420	A	-	-	168,677	-	-	96,146
023-4759460	01/27/12	5,003	A	-	13 months	190,940	-	-	108,836
023-4763328	02/01/12	2,487	A	-	-	94,922	-	-	54,106
023-4763833	02/24/12	5,137	A	-	-	196,336	-	-	111,912
023-4764966	02/02/12	2,600	A	-	-	99,216	-	-	56,553
023-4769842	02/03/12	3,250	A	-	-	124,020	-	-	70,691
023-4772394	02/24/12	5,000	A	-	-	191,082	-	-	108,917
023-4772552	03/20/12	4,409	A	-	-	168,754	-	-	96,190
023-4773377	03/08/12	3,300	A	-	-	126,299	-	-	71,990
023-4773830	02/10/12	3,500	A	-	-	133,758	-	-	76,242
023-4777044	02/29/12	4,050	A	-	-	154,799	-	-	88,235
023-4777905	02/22/12	3,617	A	-	-	138,234	-	-	78,793
023-4777963	02/23/12	5,175	A	-	-	197,770	-	-	112,729
023-4778634	03/06/12	3,537	A	-	-	135,389	-	-	77,172
023-4778736	02/27/12	4,025	A	-	-	153,821	-	-	87,678

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4779386	03/05/12	$4,958	A	-	-	$189,756	-	-	108,161
023-4781224	02/29/12	2,875	A	-	-	109,872	-	-	62,627
023-4782622	03/08/12	2,440	A	-	-	116,731	-	-	66,537
023-4789065	03/07/12	2,825	A	-	-	108,120	-	-	61,628
023-4790238	03/30/12	2,725	A	-	-	104,292	-	-	59,446
023-4792189	03/01/12	2,625	A	-	-	91,584	-	-	52,203
023-4792297	04/05/12	3,714	A	-	-	142,383	-	-	81,158
023-4792330	03/23/12	2,815	A	-	-	107,746	-	-	61,415
023-4792540	03/30/12	3,500	A	-	-	133,816	-	-	76,275
023-4794036	03/02/12	5,475	A	-	-	209,235	-	-	119,264
023-4799692	03/15/12	3,217	A	-	-	123,136	-	-	70,188
023-4800242	03/23/12	3,400	A	-	-	130,127	-	-	74,172
023-4803065	03/26/12	3,450	A	-	-	132,040	-	-	75,263
023-4804480	03/28/12	2,625	A	-	-	100,424	-	-	57,242
023-4805948	04/02/12	4,200	A	-	-	160,745	-	-	91,625
023-4806242	04/03/12	3,497	A	-	-	133,858	-	-	76,299
023-4806265	03/19/12	2,875	A	-	-	110,033	-	-	62,719
023-4809166	03/22/12	3,450	A	-	-	132,040	-	-	75,263
023-4810507	03/21/12	5,375	A	-	-	205,631	-	-	117,210
023-4810894	03/27/12	3,225	A	-	-	123,429	-	-	70,355
023-4811373	03/23/12	3,700	A	-	-	141,609	-	-	80,717
023-4811814	03/16/12	4,412	A	-	-	168,878	-	-	96,260
023-4821682	03/28/12	2,900	A	-	-	110,991	-	-	63,265
023-4823581	04/02/12	4,675	A	-	-	178,997	-	-	102,028
023-4824231	03/29/12	5,250	A	-	-	200,931	-	-	114,531
023-4825711	03/26/12	3,225	A	-	-	123,429	-	-	70,355
023-4829584	04/05/12	5,853	A	-	-	224,281	-	-	127,840
023-4830422	04/04/12	2,125	A	-	-	81,329	-	-	46,358
023-4848163	03/30/12	4,375	A	-	-	167,442	-	-	95,442
023-4875595	05/18/12	3,550	A	-	-	136,170	-	-	77,617
042-9347345	02/23/12	4,000	A	-	-	152,866	-	-	87,134
043-8781461	03/30/12	4,125	A	-	-	157,875	-	-	89,989
044-4851940	12/30/10	3,800	A	-	-	178,870	-	-	101,956
044-4886990	05/04/11	3,875	A	-	-	146,695	-	-	83,616
044-4958593	11/14/11	6,597	A	-	-	251,011	-	-	143,076
045-7332342	11/18/10	3,300	A	-	-	156,526	-	-	89,220
045-7391217	01/07/11	4,075	A	-	-	153,657	-	-	87,584
048-6307011	10/25/10	17,250	A	-	-	644,444	-	-	367,333
048-6317649	11/30/10	2,500	A	-	-	117,393	-	-	66,914
048-6830554	01/31/12	3,650	A	-	-	139,283	-	-	79,391
048-6887145	03/27/12	9,875	A	-	-	377,942	-	-	215,427
052-6313419	04/28/11	1,900	A	-	-	72,820	-	-	41,507
052-6358286	05/27/11	4,725	A	-	-	179,107	-	-	102,091
052-6411267	07/22/11	2,597	A	-	-	98,481	-	-	56,134
052-6439315	08/25/11	2,938	A	-	-	111,394	-	-	63,495

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
052-6472946	02/24/12	1,998	A	-	-	76,337	-	-	43,512
052-6501021	11/30/11	4,200	A	-	-	159,795	-	-	91,083
052-6540372	12/05/11	2,750	A	-	-	104,836	-	-	59,757
052-6541684	12/15/11	4,265	A	-	-	176,228	-	-	100,450
052-6566386	12/29/11	2,500	A	-	-	95,306	-	-	54,324
061-4027289	03/30/11	9,047	A	-	-	342,061	-	-	194,975
061-4163468	12/23/11	3,300	A	-	-	157,255	-	-	89,635
061-4208916	03/16/12	3,660	A	-	-	174,952	-	-	99,723
197-5202052	11/16/10	5,380	A	-	-	251,624	-	-	143,426
197-5416928	06/03/11	7,262	A	-	-	274,941	-	-	156,716
197-5421385	07/21/11	8,725	A	-	-	330,800	-	-	188,556
197-5510614	12/23/11	6,325	A	-	4 months	241,004	-	-	137,372
197-5751787	02/28/12	3,000	A	-	-	114,649	-	-	65,350
361-3758729	10/12/11	4,187	A	-	-	159,080	-	-	90,676
492-8980692	12/16/10	2,950	A	-	-	110,732	-	-	63,117
492-9010884	01/26/11	5,250	A	-	-	197,963	-	-	112,839
492-9025741	02/25/11	2,997	A	-	-	113,177	-	-	64,511
492-9048112	05/24/11	2,000	A	-	-	75,813	-	-	43,213
023-4439700	05/06/11	2,700	C	-	-	-	9,735	9,735	-
022-2215464	10/01/10	4,790	T	022-2302721	-	183,007	-	-	104,314
022-2242106	01/07/11	5,522	T	022-2399669	-	212,109	-	-	120,902
022-2260927	04/21/11	4,247	T	022-2381680	-	162,787	-	-	92,789
022-2271370	05/31/11	3,750	T	022-2330745	-	143,189	-	-	81,618
023-3929697	02/03/11	3,812	T	023-5163545	-	147,285	-	-	83,952
023-3977981	09/30/10	3,500	T	023-4793552	-	132,856	-	-	75,728
023-4004244	12/28/10	3,575	T	023-4800000	-	136,063	-	-	77,556
023-4244626	10/05/10	3,580	T	023-5301781	-	171,663	-	-	97,848
023-4254633	10/18/10	3,100	T	023-5086551	-	149,530	-	-	85,232
023-4278777	01/12/11	5,048	T	023-4759670	-	193,086	-	-	110,059
023-4286478	11/12/10	1,700	T	023-5093024	-	82,311	-	-	46,917
023-4287937	10/28/10	3,618	T	023-4798038	-	136,840	-	-	77,999
023-4317024	03/02/11	8,957	T	023-5143875	-	335,198	-	-	191,063
023-4349345	11/29/10	8,750	T	023-4796349	-	330,813	-	-	188,563
023-4349397	12/02/10	3,575	T	023-4766902	-	132,822	-	-	75,709
023-4369639	12/20/10	2,940	T	023-4744046	7 months	137,355	-	-	78,292
023-4375193	01/07/11	1,987	T	023-4870575	-	75,916	-	-	43,272
023-4378210	02/16/11	4,625	T	023-4993591	-	178,417	-	-	101,698
023-4399863	01/31/11	4,000	T	023-5179069	-	152,921	-	-	87,165
023-4409750	02/10/11	3,250	T	023-5006661	-	121,242	-	-	69,108
023-4410873	02/14/11	3,750	T	023-4730914	-	142,645	-	-	81,308
023-4415082	04/01/11	3,075	T	023-5293554	-	118,533	-	-	67,564
023-4424554	03/04/11	4,250	T	023-4766919	-	161,321	-	-	91,953
023-4432827	03/07/11	3,200	T	023-4742363	-	152,105	-	-	86,700
023-4441047	03/11/11	3,040	T	023-5319362	-	145,291	-	-	82,816
023-4442138	05/10/11	2,650	T	023-4774859	-	101,541	-	-	57,878

Case number	Closing date	Gift amount	Loan status[40]	Refinanced case number	Seriously delinquent[31]	Unpaid balance	Claim amount	Loss to HUD	Estimated loss to HUD (57%)[37]
023-4444014	03/31/11	1,540	T	023-5011308	-	75,017	-	-	42,760
023-4446651	04/01/11	5,731	T	023-4745093	-	274,453	-	-	156,438
023-4453521	03/24/11	2,925	T	023-4799056	-	112,161	-	-	63,932
023-4453987	06/03/11	5,900	T	023-4830212	-	280,703	-	-	160,001
023-4454194	03/29/11	3,642	T	023-4703528	-	138,544	-	-	78,970
023-4461592	03/30/11	3,025	T	023-4715079	-	115,000	-	-	65,550
023-4466851	04/18/11	3,075	T	023-4794404	-	117,377	-	-	66,905
023-4468794	05/23/11	3,001	T	023-5066330	-	116,516	-	-	66,414
023-4469328	04/08/11	2,750	T	023-4775253	-	105,389	-	-	60,072
023-4470559	04/26/11	3,000	T	023-4804661	-	115,177	-	-	65,651
023-4473880	04/28/11	2,650	T	023-5022431	-	101,454	-	-	57,829
023-4474760	04/25/11	3,612	T	023-4766925	-	137,917	-	-	78,613
023-4480028	04/25/11	5,430	T	023-4863676	-	208,608	-	-	118,907
023-4497834	05/18/11	3,000	T	023-5047558	-	115,013	-	-	65,557
023-4528041	06/03/11	4,425	T	023-4979746	-	170,468	-	-	97,167
023-4540269	06/13/11	3,375	T	023-5052196	-	130,632	-	-	74,460
023-4563513	06/30/11	5,050	T	023-4784176	-	193,223	-	-	110,137
023-4586073	07/28/11	2,912	T	023-5242575	-	112,141	-	-	63,920
023-4610788	08/24/11	4,785	T	023-4872366	-	183,062	-	-	104,345
023-4610881	08/25/11	6,000	T	023-5248634	-	231,625	-	-	132,026
023-4663310	10/04/11	4,012	T	023-4928494	-	155,611	-	-	88,698
023-4677059	10/31/11	5,625	T	023-5151104	-	217,388	-	-	123,911
023-4682089	11/01/11	4,825	T	023-5066137	-	185,932	-	-	105,981
023-4701556	11/22/11	4,500	T	023-5129674	-	175,103	-	-	99,809
023-4713902	12/15/11	5,147	T	023-5117528	-	199,445	-	-	113,684
023-4735131	02/09/12	4,325	T	023-5173355	-	167,459	-	-	95,452
023-4752955	01/26/12	5,690	T	023-5132916	-	222,048	-	-	126,567
042-9130716	02/11/11	5,800	T	042-9377659	-	279,839	-	-	159,508
043-8575589	06/20/11	5,250	T	043-8837916	-	202,129	-	-	115,214
044-4851020	12/28/10	9,125	T	044-5029346	-	347,968	-	-	198,342
045-7381894	03/15/11	3,250	T	045-7810000	-	125,273	-	-	71,406
048-6369827	01/07/11	4,800	T	048-6792479	-	183,372	-	-	104,522
048-6575768	06/30/11	6,500	T	048-7436009	-	251,945	-	-	143,609
048-6787869	12/21/11	4,100	T	048-7372273	-	198,303	-	-	113,033
052-6455347	08/26/11	4,748	T	052-7191570	-	183,657	-	-	104,684
052-6547805	11/29/11	7,775	T	052-7099681	-	302,082	-	-	172,187
052-6582632	01/24/12	3,675	T	052-7067705	-	142,872	-	-	81,437
566-0243387	01/31/11	5,125	T	566-0490366	-	194,366	-	-	110,789
Totals					**12**	**$58,593,224**	**$9,735**[39]	**$ 9,735**	**$ 33,398,142**

Appendix F

SCHEDULE OF LOSSES FOR LOANS WITH MATERIAL UNDERWRITING DEFICIENCIES

FHA loan number	Unpaid mortgage balance	Claim paid	Actual loss to HUD	Estimated loss to HUD (57%)
022-2192845	N/A[41]	$ –	$ –	$ –
023-2971333	–	74,033	74,033	–
023-3046385	–	136,594	136,594	–
023-3167827	–	38,930	38,930	–
023-3295473	–	121,047	121,047	–
023-3502416	–	129,454	51,026	
023-3661762	N/A[41]	–	–	–
023-4002794	N/A[42]	–	–	–
023-4485740	N/A[41]	–	–	–
Totals	$ –	**$ 500,058**	**$ 421,630**	$ –

[41] Included under finding 1.
[42] Loan was terminated (paid in full).

Appendix G

LOAN SUMMARIES FOR MATERIAL UNDERWRITING DEFICIENCIES

The following summaries provide details for each loan containing material underwriting deficiencies noted in finding 2.

1. FHA loan number: 022-2192845
Loan status: Active
Default status: Reinstated after loss mitigation intervention

This loan contains material underwriting deficiencies (violation of antiflipping waiver) that warrant indemnification; however, we are seeking indemnification based on the unallowable gift (see finding 1).

<u>Appraisal</u>
The Lending Company did not ensure that FHA's antiflipping waiver was followed. The property was acquired on April 27, 2010, for $59,744, and the borrower's contract for the property was signed on May 5, 2010, for $81,500, a 36 percent increase, only 1 week later. The loan closed on July 2, 2010 (66 days after the previous sale). Regulations at 24 CFR 203.37a(b)(2) state that a property is not eligible for a mortgage to be insured by FHA if the resale date is 90 days or less following the date of acquisition by the seller. However, if the sales price was 20 percent or more above the seller's acquisition cost, the regulation was waived if the lender justified the increase in value or a second appraisal verified that the seller completed sufficient rehabilitation work to substantiate the increase in value or the appraiser provided an appropriate explanation of the increase in value. The Lending Company ordered a second appraisal; however, it showed that the cost of renovations was only $1,845, and the appraiser did not explain the increase in value.

2. FHA loan number: 023-2971333
Loan status: Claim
Default status: Preforeclosure sale completed

We are seeking reimbursement for the losses incurred by HUD based on The Lending Company's not properly supporting the borrower's commission income.

<u>Income</u>
The Lending Company did not properly support the borrower's commission income because it was 47 percent of the borrower's annual income for the previous year and The Lending Company did not obtain any of the borrower's tax returns. The Lending Company determined the borrower's monthly income using regular pay ($1,629), commission pay ($1,596), and other pay ($79); however, since the commission income was more than 25 percent of the borrower's annual income (approximately 47 percent), The Lending Company

was required to obtain and analyze the most recent 2 years' tax returns and consider business expenses in underwriting. Mortgagee Letter 2004-47 requires lenders to obtain and analyze the most recent 2 years of tax returns to consider business expenses in underwriting when the commission income exceeds 25 percent of the annual income. If the commission income was not used in qualifying the borrower, the total fixed payment-to-income ratio would have increased from 46.45 to 89.84 percent.

3. **FHA loan number:** 023-3046385
Loan status: Claim
Default status: Preforeclosure sale completed

We are seeking reimbursement for the losses incurred by HUD based on The Lending Company's not conducting a verification of employment before the loan closed.

Income

The Lending Company did not verify the borrower's current employment as required by Mortgagee Letter 2004-47. The Lending Company conducted a verification of employment on October 2, 2008; however, it was 2 days after the loan closed on September 30, 2008.

4. **FHA loan number:** 023-3167827
Loan status: Claim
Default status: Preforeclosure sale completed

We are seeking reimbursement for the losses incurred by HUD based on the revised total fixed payment-to-income ratio, which reflects the allowable qualifying income as calculated by the OIG in accordance with HUD's requirements. After considering the overstated income and recalculation of the qualifying ratios, the total fixed payment-to-income ratio increased from 56.69 to 62.17 percent.

Income

The Lending Company overstated the borrower's monthly income by $183. The Lending Company determined the borrower's monthly base income based on the borrower's averaging 40 hours per week ($1,886); however, the verification of employment stated that the borrower averaged 35-40 hours per week. The most recent pay stub obtained by The Lending Company covered only 30 days of the current year, and the base income for the previous year did not support that the borrower averaged 40 hours per week. Therefore, we calculated the borrower's monthly income based on the previous 25 months.[43]

[43] ($19,224 [2007] + $21,617 [2008] + $1,738 [2009]) / 25 months = $1,703

5. **FHA loan number:** 023-3295473
Loan status: Claim
Default status: Preforeclosure sale completed

We are seeking reimbursement for the losses incurred by HUD based on the revised total fixed payment-to-income ratio, which reflects the allowable qualifying income as calculated by the OIG in accordance with HUD's requirements. After considering the overstated income and recalculation of the qualifying ratios, the total fixed payment-to-income ratio increased from 41.03 to 53.08 percent.

Income
The Lending Company overstated the borrower's monthly income by $3,291 because it did not support the "other type of income" that was used in qualifying the borrower and overstated the base income by $117.

- The Lending Company determined the borrower's total monthly income based in part on "other type of income" ($3,174); however, it was not supported or documented. The borrower's pay stubs for the current year showed that overtime income was earned so the "other type of income" may have been for overtime. If this was the case, The Lending Company did not verify that the overtime income was received for the past 2 years and was likely to continue as required by HUD Handbook 4155.1, REV-5, paragraph 2-7A. Also, The Lending Company did not develop an earnings trend to determine whether the overtime showed a continual decline.

- The Lending Company determined the borrower's base monthly income at $6,296; however, it did not document how this amount was calculated, and we were not able to determine how it was calculated. Therefore, we calculated the base income at $6,179,[44] which is based on the average hours worked, from the three pay stubs in the loan file (76.6 hours per 2-week pay period).

6. **FHA loan number:** 023-3502416
Loan status: Claim
Default status: N/A

We are seeking reimbursement for the losses incurred by HUD based on The Lending Company's not verifying the borrower's employment history for the previous 2 years.

Income
The Lending Company did not verify the borrower's employment history for the previous 2 years as required. HUD Handbook 4155.1, paragraph 1.3.f, states that for Technology Open to Approved Lenders accept recommendations, if the borrower was not employed with the same employer for the previous 2 years and has an employment gap of 60 days or greater, the borrower must provide a written explanation for the employment gap. The borrower was not employed with same employer for the previous 2 years. The Lending Company verified the borrower's employment history from August 20, 2007, to May 4, 2009, and June 18 to July

[44] ([$37.23 hourly rate x 76.6 hours per 2-week pay period] x 26 pay periods) / 12 months = $6,179

28, 2009 (the date of the verification of employment). The Lending Company did not obtain an explanation for the borrower's unemployment from July 29 to August 19, 2007 (23 days), and the gap in employment from May 5 to June 17, 2009 (43 days), a total of 66 days.

7. **FHA loan number:** 023-3661762
Loan status: Active
Default status: First legal action to commence foreclosure

This loan had material underwriting deficiencies (understated liabilities) that warrant indemnification; however, we are seeking indemnification based on the unallowable gift (see finding 1). After considering the understated liabilities and recalculation of the qualifying ratios, the total fixed payment-to-income ratio increased from 52.52 to 56.27 percent.

<u>Credit</u>
The Lending Company understated the borrower's monthly liabilities by $116 because it incorrectly omitted an account in qualifying the borrower. The borrower had three separate accounts for Macy's listed on her initial credit report with different opening dates and account numbers. The three accounts had monthly payments of $33, $43, and $159. An updated credit report showed that the account with a monthly payment of $43 had been paid in full; however, The Lending Company incorrectly included this account as a liability and omitted the account with a term of $159 from the automated underwriting system.

8. **FHA loan number:** 023-4002794
Loan status: Terminated (paid in full)
Default status: N/A

This loan had material underwriting deficiencies (overstated income) that warrant indemnification; however, it was terminated (paid in full) during the audit. This loan also had an unallowable gift (see finding 1). After considering the overstated income and recalculation of the qualifying ratios, the total fixed payment-to-income ratio increased from 50.13 to 59.45 percent.

<u>Income</u>
The Lending Company overstated the borrower's monthly income by $127. The Lending Company determined the borrower's monthly income based in part on bonus income ($127); however, the borrower received the bonus for only approximately 18 months and did not justify and document in writing the reason for using the income as required by HUD Handbook 4155.1, paragraph 4.D.2.b.

<u>Credit</u>
The Lending Company understated the borrower's monthly liabilities by $211 because it omitted a liability account in qualifying the borrower. The borrower's credit report listed an account for Toyota Motor Credit with a monthly payment of $211 and a balance of $8,199. The Lending Company did not document the reasons why the account was omitted as required by the desktop underwriter underwriting findings.

9. FHA loan number: 023-4485740
Loan status: Active
Default status: Reinstated after loss mitigation intervention

This loan had material underwriting deficiencies (understated liabilities) that warrant indemnification; however, we are seeking indemnification based on the unallowable gift (see finding 1). After considering the understated liabilities and recalculation of the qualifying ratios, the total fixed payment-to-income ratio increased from 50.92 to 62.13 percent.

<u>Credit</u>
The Lending Company understated the borrower's monthly liabilities by $447 because it determined the monthly payment for a student loan at $73; however, it did not document or support how the monthly payment was determined. The credit report listed a student loan with a balance of $10,399 and no monthly payment. The credit report stated that the repayment was deferred but did not specify the timeframe of the deferment. We were not able to determine how The Lending Company determined the monthly payment of $73, therefore; we determined the monthly payment at $520, 5 percent of the outstanding balance, which is $447 more than the monthly payment calculated by The Lending Company. HUD Handbook 4155.1, paragraph 4.C.4.c, requires the monthly payment to be calculated at 5 percent of the balance if an account has an outstanding balance but no monthly payment.