OFFICE OF AUDIT
REGION 3
PHILADELPHIA, PA

# State of Maryland Department of Housing and Community Development
# Crownsville, MD

# Emergency Mortgage Assistance Program

2013-PH-1006

AUGUST 8, 2013

Issue Date: August 8, 2013

Audit Report Number: 2013-PH-1006

TO: Sarah S. Gerecke, Deputy Assistant Secretary for Housing Counseling, HC

**//signed//**

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The State of Maryland, Crownsville, MD, Generally Administered Its Emergency Mortgage Assistance Program According to Applicable HUD 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 State of Maryland's Department of Housing and Community Development's administration of its Emergency Mortgage Assistance program.

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 215-430-6729.

August 8, 2013

**The State of Maryland, Crownsville, MD, Generally Administered Its Emergency Mortgage Assistance Program According to Applicable HUD Requirements**

# Highlights

**Audit Report 2013-PH-1006**

## What We Audited and Why

We audited the State of Maryland's Department of Housing and Community Development's administration of its Emergency Mortgage Assistance program. We audited the State's program because the U.S. Department of Housing and Urban Development (HUD) awarded the State $61.6 million in Emergency Homeowner's Loan program funds to administer its Emergency Mortgage Assistance program. Our objective was to determine whether the State administered its Emergency Mortgage Assistance program in accordance with applicable HUD requirements.

## What We Recommend

This report contains no recommendations.

## What We Found

The State generally administered its Emergency Mortgage Assistance program in accordance with applicable HUD requirements. It ensured that homeowners met eligibility requirements, maximum loan amounts were within established loan limits, and its administrative expenses were eligible and supported by adequate documentation. Also, it generally ensured that homeowners' debt-to-income ratios were below 55 percent.

# TABLE OF CONTENTS

# BACKGROUND AND OBJECTIVE

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was revised and reauthorized to provide $1 billion to the U.S. Department of Housing and Urban Development (HUD) to implement the Emergency Homeowners' Loan program. This program authorized HUD to allow funds to be administered by a State that had an existing program that provided substantially similar assistance to homeowners as determined by HUD. HUD awarded grant funds to 32 States and Puerto Rico. HUD awarded the State of Maryland $61.6 million because it determined that the State's Emergency Mortgage Assistance program was substantially similar to its program. The State's program is designed to provide emergency assistance to homeowners at risk of foreclosure due to a substantial reduction in income brought on by layoff, underemployment, or a medical condition.

The Maryland Department of Housing and Community Development was responsible for administering the State's grant, and it entered into a cooperative grant agreement with HUD on March 30, 2011. In doing so, it agreed to carry out its activities under the agreement in compliance with the Emergency Homeowner's Relief Act[1], as amended, and any other applicable laws and requirements. The performance period of the grant began on March 30, 2011, and ends on December 1, 2013. With these funds, the State's Emergency Mortgage Assistance program offered a deferred-payment "bridge loan" of up to $50,000 with no interest to assist eligible borrowers with payments on their mortgage for up to 24 months. HUD authorized the State to use $5 million of the $61.6 million for administrative costs associated with the program. As of January 2013, the State had provided emergency mortgage assistance totaling $43.4 million to the owners of 1,320 homes.

The Department of Housing and Community Development is located at 100 Community Place, Crownsville, MD. The Department is responsible for implementing housing policies that promote and preserve home ownership and create innovative community development initiatives to meet the challenges of a growing Maryland.

Our audit objective was to determine whether the State administered its Emergency Mortgage Assistance program in accordance with applicable HUD requirements.

[1] The Emergency Homeowner's Relief Act authorizes temporary assistance to help defray mortgage payments on homes owned by persons who are temporarily unemployed or underemployed as the result of adverse economic conditions.

# RESULTS OF AUDIT

## Finding: The State of Maryland Generally Administered Its Emergency Mortgage Assistance Program in Accordance With HUD Requirements

The State generally administered its Emergency Mortgage Assistance program in accordance with applicable HUD requirements. We audited 14 statistically selected loan files valued at $473,916 and determined that the State generally ensured that homeowners met eligibility requirements, maximum loan amounts were within established loan limits, debt-to-income ratios were below 55 percent, and its administrative expenses were eligible and supported by adequate documentation. We did not review additional loans from our sample since the review of the first 14 disclosed no significant problems.

**Assisted Homeowners Met Eligibility Requirements**

The State ensured that homeowners were eligible to receive assistance. We reviewed the files for 14 of the 1,320 loans that the State made. The owners of these 14 homes received assistance totaling $473,916. We verified that the owners were eligible to receive assistance. Article V, section E, of the State's cooperative agreement required that assistance be awarded to homeowners who met eight eligibility requirements. Homeowners were required to meet residency, event, income limit, loss of income, delinquency and imminence of foreclosure, likelihood to resume payment, flood zone insurance, and immigration status requirements. In the 14 files, we reviewed documentation such as intake applications, wage and earning statements, income tax returns, employment-related documentation, medical documentation, loan repayment history, and mortgage delinquency documentation.

Additionally, we reviewed the applications for 14 homes for which the State determined that the homeowners were not eligible to participate in its program to ensure that they were not assisted for valid reasons. The State did not assist these homeowners because 13 homeowners did not meet the eligibility requirements and one homeowner decided not to participate in the program.

## Loans Complied With the Established Assistance Limit

Article V, section F(2), of the State's cooperative agreement limited assistance to a borrower to $50,000 or less. The State provided assistance ranging from $6,881 to $49,752 to the owners of the 14 homes reviewed who met eligibility requirements.

## Assisted Homeowners' Debt-to-Income Ratios Were Generally Acceptable

The State generally ensured that homeowners' debt-to-income ratios were below 55 percent. Article V, section E(6), of the cooperative agreement required the State to ensure that the applicant had a reasonable likelihood of being able to fully resume making the full mortgage payment after the emergency mortgage assistance ended. Regulations at 24 CFR (Code of Federal Regulations) 2700.110 require that homeowners demonstrate a likelihood of repayment of full mortgage payments. The regulations require that homeowner has a debt-to-income ratio below 55 percent.

We reviewed the State's debt-to-income calculations supporting the assistance it provided to the owners of the 14 homes, who received assistance totaling $473,916. We reviewed the homeowners' credit reports and income documentation. In one case, the homeowner's debt-to-income ratio exceeded 55 percent. The State did not accurately calculate the homeowner's debt as reported on the credit report. The correct debt-to-income ratio was 63 percent, rather than 39 percent as determined by the State. Although the debt-to-income ratio exceeded the required limit in this case, the homeowner had made timely payments to the State for the homeowner portion of the monthly mortgage payment. The State's assistance to this homeowner will end in August 2013. The State informed us that as part of its normal closeout procedures, it would ensure that the homeowner would be capable of resuming full mortgage payments as required.

## Administrative Costs Were Eligible and Adequately Supported

The State incurred administrative costs that were eligible, and it maintained documentation to adequately support them. Article V, section D, of the State's cooperative agreement required it to use administrative funds for eligible expenses such as staffing, technology, training, and indirect costs. Article X, section G, of the agreement required the State to maintain source documentation to support its requests for payment. The State requested payment for administrative costs totaling $4.2 million during the period June 2011 through December 2012. We reviewed $280,413 of those expenses to determine whether the expenses were eligible program expenses and whether the State maintained documentation to adequately support them. We reviewed timesheets, payroll records, temporary staff contracts, and other documentation to ensure that the administrative costs were eligible and properly supported.

## Conclusion

The State generally administered its Emergency Mortgage Assistance program in accordance with applicable HUD requirements. It ensured that homeowners met eligibility requirements, maximum loan amounts were within established loan limits, and its administrative expenses were eligible and supported by adequate documentation. Also, it generally ensured that homeowners' debt-to-income ratios were below 55 percent.

# SCOPE AND METHODOLOGY

We conducted the audit from January to May 2013 at the State's office located at 100 Community Place, Crownsville, MD, and at our offices located in Philadelphia, PA, and Baltimore, MD. The audit covered the period April 2011 through December 2012.

To achieve our objective, we reviewed

- Relevant background information.

- HUD regulations at 24 CFR Part 2700 and the Notice of Funding Availability - Emergency Homeowners' Loan Program: Notice of Allocation of Funding for Substantially Similar State Programs.

- The Department of Housing and Community Development's cooperative agreement with HUD, emergency mortgage assistance policy and procedures, quarterly reports to HUD for the period April 2011 through September 2012, organizational charts, employee listing as of September 30, 2011, personnel policies and procedures, applications for assistance, and loan files.

- The State's fiscal year 2011 audited financial statements.

We conducted interviews with the State's employees and HUD staff.

We relied in part on computer-processed data in the State's database. We used the computer-processed data to select a sample of loan files to review. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

During our audit period, the State provided emergency mortgage assistance totaling $43.4 million to the owners of 1,320 homes. Using a stratified random sampling method, we selected a statistical sample of 70 loans valued at $2.3 million for review to determine whether the assistance was provided in accordance with HUD requirements. The statistical sampling plan had a one-sided 95 percent confidence interval with a precision level of 30.90 percent. However, we reviewed only the first 14 loans valued at $473,916 because our review of those loans disclosed no significant problems. We also used a simple random sampling method to select and review 14 of 2,900 applications of persons who the State determined were not eligible to participate in its program.

We screened the Social Security numbers of 1,721 persons (borrowers and coborrowers) related to the 1,320 homes that received emergency mortgage assistance against a Social Security number verification database. Thirteen Social Security numbers were associated with deceased persons. We reviewed the loan files, conducted Lexis/Nexis and Accurint public record searches, and determined that in five cases, the Social Security numbers or names of the borrowers or coborrowers were transposed or listed inaccurately in the State's database. In one case, a coborrower died before the application for assistance was approved, and the State properly processed the application based on the remaining coborrower's information. Lastly, there were six borrowers and one coborrower who died while participating in the program. The State properly ended the mortgage assistance as required for the six borrowers and adjusted the payments for the surviving coborrower.

We also screened the Social Security numbers of the 1,721 persons against HUD's Public and Indian Housing Information Center database to determine whether these individuals received assistance through HUD's Housing Choice Voucher program or low-rent public housing program. We found that one borrower also participated in the Housing Choice Voucher Homeownership program.

We screened the names of the owners of the 14 homes, who met eligibility requirements, which we reviewed against the Federal System for Award Management to determine whether they were prohibited from receiving assistance. None of the owners was excluded from receiving Federal financial and nonfinancial assistance and benefits in the system.

We screened the names of the 379 employees of the State's Department of Housing and Community Development as of September 30, 2011, against the list of the 1,721 names of the borrowers and coborrowers related to the 1,320 homes, who received emergency mortgage assistance, to determine whether any employees received assistance. We found that two employees received assistance. HUD regulations and the cooperative agreement did not prohibit employees from participating in the program. We reviewed the loan files and found that the employees met eligibility requirements. No conflicts of interest were noted. The employees did not have familial relationships with the loan underwriters, and they were not excluded from receiving the assistance in the Federal System for Award Management.

The State requested payment for administrative costs totaling $4.2 million during the period June 2011 through December 2012. We nonstatistically selected and reviewed $280,413 of those expenses to determine whether the expenses were eligible program expenses and whether the State maintained documentation to adequately support them. We found these expenses to be eligible and supported by adequate documentation. We selected these expenses from the quarterly performance report for the quarter ending September 30, 2011. We selected this quarterly report because it had the greatest amount of administrative expenses reported ($1.2 million) from the seven quarterly reports the State submitted to HUD. We reviewed expenses from the personnel and fringe benefits and temporary staff expense categories because they had the largest amounts of expenses reported for the period ($477,907 and $296,533, respectively). Of the $477,907, we reviewed supporting documentation for $214,063, representing expenses for all 14 employees who worked more than 300 hours during the quarter. Of the $296,533, we nonstatistically selected every fourth employee's name and reviewed supporting documentation for $66,350, representing expenses for 10 employees.

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

# INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

## Relevant Internal Controls

We determined that the following internal control was relevant to our audit objective:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the program meets its objectives.

We assessed the relevant control 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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

# APPENDIX

## Appendix A

## AUDITEE COMMENTS

DHCD
Maryland Department of Housing and Community Development

MARTIN O'MALLEY
*Governor*
ANTHONY G. BROWN
*Lt. Governor*
RAYMOND A. SKINNER
*Secretary*
CLARENCE J. SNUGGS
*Deputy Secretary*

July 25, 2013

Mr. John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, PA 19107

Dear Mr. Buck:

The purpose of this letter is to provide the response of the Maryland Department of Housing and Community Development (DHCD) to your Audit Report of the Emergency Mortgage Assistance Program (EMA). Your report was provided to DHCD on July 19, 2013 and concluded that DHCD generally administered its EMA program in accordance with applicable Housing and Urban Development requirements. Accordingly, your report contained no recommendations for corrective actions.

DHCD is proud of its accomplishments in successfully executing a program of such magnitude within the short timeframe allowed. Over 1,300 Maryland citizens received financial relief to avoid foreclosure on their homes. I wish to thank you and your staff for your efforts in evaluating DHCD's performance, the conclusions of which confirmed precisely how well the EMA program was administered.

If you have any questions or require additional information, please contact Mr. Gary Beaver, Internal Audit Manager at 410-514-7032 or at beaver@mdhousing.org.

Sincerely,

Raymond A. Skinner
Secretary

RAS/gb