



Office of Native American Programs, Washington, DC

Section 184 Indian Home Loan Guarantee Program



To: Rodger J. Boyd, Deputy Assistant Secretary, Office of Native American Programs, PN

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program

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 Office of Native American Programs' Section 184 Indian Home Loan Guarantee 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 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2015-LA-0002

Date: July 6, 2015

HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program

Highlights

What We Audited and Why

We audited the Section 184 Indian Home Loan Guarantee program based on the U.S. Department Housing and Urban Development (HUD), Office of Inspector General's (OIG) research, analysis, and information provided by the Office of Investigation, detailing potential weaknesses in the program's controls. The audit supports our goal of strengthening the soundness of public and Indian housing. Our objective was to determine whether HUD had adequate controls in place to provide oversight of the Section 184 program.

What We Found

The Office of Loan Guarantee (OLG) did not provide adequate oversight of the Section 184 program, resulting in an increased overall risk to the program, including guaranteeing 3,845 loans totaling more than \$705 million that were not underwritten in accordance with program guidelines. On an annualized basis looking forward, this is equivalent to \$77 million in loans that have a higher risk of loss in the first year. The projections are based on a statistical sample of loans guaranteed from January 1, 2010, to July 31, 2014, that determined 32 of 95 loans had material underwriting deficiencies that should not have been approved for Section 184 loan guarantees. More specifically, the OLG did not adequately monitor, track, and evaluate participating lenders to ensure that loans were underwritten in accordance with the Section 184 processing guidelines. This lack of oversight and high incidence of poorly underwritten loans has the potential to negatively impact the financial standing of Native American communities.

What We Recommend

We recommend that the Deputy Assistant Secretary for Native American Programs develop and implement policies and procedures (1) for monitoring, tracking, underwriting, and evaluating the Section 184 program, resulting in nearly \$77 million in funds to be put to better use; (2) for standardized monthly delinquency reports; (3) to deny payments to lenders for claims on loans that have material underwriting deficiencies; and (4) to ensure that OLG uses enforcement actions available under 12 U.S.C. (United States Code) 1715z-13a(g). HUD should also (5) request indemnification for the loans that had material underwriting deficiencies, resulting in \$2.5 million in funds to be put to better use, (6) request statutory authority to indemnify poorly underwritten loans, (7) obtain support for one loan, which lacked documentation required for loan approval, and (8) ensure that only underwriters that are approved by OLG are underwriting Section 184 loans.

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Background and Objective

Under the provisions of Section 184 of the Housing and Community Development Act of 1992 and as amended by the Native American Housing Assistance and Self-Determination Act of 1996, HUD was authorized to guarantee loans made by private lenders to Native Americans, Indian housing authorities or tribally designated housing entities, and tribes. Much of the land in Indian country is held in trust by the United States Government for the benefit of a particular tribe or individual Native Americans and has restrictions. As a result, Native American families have historically had limited access to private mortgage capital. The Section 184 Indian Home Loan Guarantee program was designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities. Section 184 home mortgage loans may be used, both on and off native lands, for new construction, rehabilitation, purchase of an existing home, or refinance.

The Office of Loan Guarantee (OLG) within the Office of Native American Programs guarantees Section 184 loans and is responsible for monitoring, quality control, loan underwriting, and program training. Under the Section 184 direct guarantee program, similar to the Federal Housing Administration's (FHA) direct endorsement program, approved lenders may underwrite and close loans before OLG issues the loan guarantee certificate. Previously, loans could be underwritten by OLG staff or direct guarantee lenders; however, as of October 1, 2014, all loans are required to be underwritten by direct guarantee lenders except for loans held in trust by the Federal Government, which made up approximately 10 percent of all loans guaranteed during our audit period.

Participating lenders are entitled to a guarantee covering 100 percent of the outstanding principal, interest, and reasonable fees on loans made. The Indian Housing Loan Guarantee Fund was established for the purpose of providing loan guarantees and is funded in part by annual appropriations from Congress, unlike FHA, and through a fee paid by borrowers. Since the program began guaranteeing loans in 1995, the Section 184 program has guaranteed more than 26,000 loans (more than \$4 billion in guaranteed funds). The program guaranteed an average of 147 loans per year in the first 9 years; however, it has experienced recent significant growth. In the past 5 years, the program has guaranteed an average of 3,444 loans per year.

Fiscal year range	Loans guaranteed	Average loans guaranteed per year
1995 to 2003	1,319	147
2004 to 2005	1,256	628
2006 to 2009	6,453	1,613
2010 to 2014	17,219	3,444
Totals	26,247	1,312

Our objective was to determine whether HUD had adequate controls in place to provide oversight of the Section 184 program.

Results of Audit

Finding 1: HUD Did Not Provide Adequate Oversight of the Section 184 Program

OLG did not provide adequate oversight of the Section 184 program. Specifically, it did not adequately monitor, track, and evaluate participating lenders to ensure that loans were underwritten in accordance with the Section 184 processing guidelines. A review of 95 statistically sampled loans guaranteed from January 1, 2010, to July 31, 2014, determined that 32 of 95 loans had material underwriting deficiencies. The OLG also did not have specific policies and procedures for enforcement actions specific to poorly underwritten loans and did not always properly retain Section 184 loan files. This condition occurred because OLG did not place enough emphasis on controls or resources to ensure adequate oversight of the program. As a result, there was increased overall risk to the Section 184 program, including guaranteeing 3,845 loans totaling more than \$705 million that were not underwritten in accordance with program guidelines. On an annualized basis looking forward one full year, this is equivalent to \$77 million in loans that have a higher risk of loss. Additionally, the increased risk and high incidence of poorly underwritten loans could negatively impact the financial standing of Native American communities.

Monitoring, Tracking, and Evaluation of Lenders and Loans Were Inadequate

OLG did not adequately or consistently monitor lenders or loans that were underwritten. Specifically, OLG did not have policies or procedure for selecting and monitoring lenders. During fiscal year 2012, OLG conducted monitoring reviews of 5 lenders and reviewed only 26 loans, while there were 3,945 loans guaranteed by 110 lenders. One of the HUD officials responsible for these reviews left OLG, resulting in monitoring reviews of only 1 lender and 2 total loans of 3,585 loans originated by 120 lenders for fiscal year 2013. For fiscal year 2014, OLG conducted monitoring reviews of 3 lenders, but only 8 loans were reviewed of 3,447 loans originated by 128 lenders. The table below identifies the number of loans reviewed and the loans guaranteed for fiscal years 2012 to 2014. OLG did not have policies and procedures in place to assess the risks of lenders or loans. At the time of our audit, only one individual was responsible for conducting monitoring reviews; however, OLG planned to assign more staff members to this area.

In fiscal year 2014, the Office of Loan Guarantee reviewed only 8 of 3,447 guaranteed loans.

Fiscal year	Monitoring reviews	Loans reviewed	Loans guaranteed
2012	5	26	3,945
2013	1	2	3,585
2014	3	8	3,447
Totals	9	36	10,977

Further, OLG was not able to determine track and evaluate the performance of lenders and loans because the monthly and quarterly delinquency reports received from servicing lenders were not in a standardized format and most contained incorrect case numbers or did not have a Section 184 case number field. According to OLG, servicing lenders are required to report information for delinquent loans monthly and report their entire loan portfolio every quarter. We could not determine whether all of the servicing lenders submitted the monthly and quarterly delinquency reports to OLG. According to OLG, there were 43 servicing lenders of Section 184 loans; however, it provided only 31 quarterly reports for December 2014.¹ Also, it appeared that eight of the servicing lenders did not report on their entire loan portfolio, reporting delinquent loans only on the December 2014 quarterly report.

OLG needs to be able to identify loans that are delinquent to identify high-risk lenders that could be targeted for a monitoring review and also identify loans that should be considered for review (for example, early payment defaults). Although the claims paid for the Section 184 program from fiscal year 1995 to 2015 was only approximately \$114.7 million² while the total amount of loans guaranteed during this timeframe was approximately \$4.6 billion, according to its records, the December 2014 quarterly reports indicated that approximately 12 percent of loans serviced were delinquent as of December 2014.³

Guaranteed Loans Had Material Underwriting Deficiencies

Our detailed review of 95 statistically sampled Section 184 loans⁴ guaranteed by OLG identified 32 loans⁵ with material underwriting deficiencies, which included inadequate determination or documentation of income, credit, and assets. Material deficiencies were also identified in the appraisal reports. There was one incomplete loan file provide by OLG that did not contain the income, credit, and asset documents that were used for loan approval. Extrapolating the 32 loans to the audit universe of 15,124 loans resulted in a projection that OLG guaranteed 3,845 loans totaling at least \$705 million that contained material underwriting deficiencies. On an annualized basis looking forward 1 full year, this is equivalent to at least \$153 million in loans that would not be underwritten in accordance with the Section 184 loan processing guidelines.

HUD guaranteed more than \$705 million for Section 184 loans that contained material underwriting deficiencies.

Although both direct guarantee lenders and OLG underwriters approved loans that were not underwritten in accordance with the Section 184 processing guidelines,⁶ most of the loans with

¹ Two servicers provided OLG December 2014 quarterly reports but were not on their list of servicing lenders.

² As of March 31, 2015.

³ Based on 31 quarterly reports received, OLG identified 43 loan servicers. Some of the reports received listed only delinquent loans; however, the number of loans on these reports was not material to the total number of loans.

⁴ See the Scope and Methodology section for details on the statistical sample.

⁵ See appendixes D and E for details on material underwriting deficiencies.

⁶ See appendix C.

material underwriting deficiencies were underwritten by direct guarantee lenders.⁷ Of the 3,845 projected materially deficient loans totaling \$705 million, direct guarantee lenders were responsible for underwriting 3,095 loans totaling at least \$566 million. In addition, two loans in the sample were underwritten by underwriters that were not on OLG’s approved underwriter list. The table below identifies the number of loans with underwriting deficiencies by underwriter (direct guarantee lender or HUD); see appendixes E and F for more details.

Underwriter	Loans reviewed	Underwriting deficiencies					Deficiency type ⁸		
		Income	Credit	Assets	Appraisal	Other	None	Technical	Material
Direct guarantee	78	31	32	24	9	21	21	30	26
HUD	17	8	8	3	2	4	4	6	6
Totals	95	39	40	27	11	25	25	36	32

Income

The material underwriting deficiencies related to income included (1) improper calculation or documentation of monthly income, (2) no verification of employment, and (3) improper determination of the probability of continued employment or income. For example, for loan 022-101850, the lender included overtime income in the borrower’s total monthly income; however, it had not been earned for the past 2 years as required by the Section 184 processing guidelines. The verification of employment documented the overtime income for only about 13 months. As a result, the borrower’s income was overstated by \$1,707, and the debt-to-income ratio increased from 35.96 to 88.04 percent⁹, which exceeded the required limit of 41 percent.

Credit

The material underwriting deficiencies related to credit included (1) improper exclusion of liability accounts of borrowers and nonpurchasing spouses, (2) improper calculation of the monthly payments of liability accounts, (3) no explanation of derogatory credit that had occurred in the past 2 years, (4) late payments occurring in the past 12 months, (5) accounts converted to collection in the past 12 months, (6) unpaid collection accounts, and (7) no verification of the previous housing payment history. For example, for loan 225-100004, the lender improperly excluded the debts of the nonpurchasing spouse, and the borrower resided in a community property State. The Section 184 processing guidelines state that the debts of the nonpurchasing spouse must be included in the borrower’s qualifying ratios if the borrower resides in a community property State. As a

⁷ As of October 1, 2014, all loans are required to be underwritten by direct guarantee lenders except loans for lands held in trust by the Federal Government, which made up approximately 10 percent of all loans guaranteed during our audit period.

⁸ The number of loans in the deficiency type columns add to a total of only 93 loans because 1 loan was unsupported and there were no requirements for the other loan (housing authority was the borrower).

⁹ The borrower’s liabilities were also overstated by \$2,007.

result, the borrower's liabilities were understated by \$123, and the debt-to-income ratio increased from 35.97 to 63.58 percent,¹⁰ which exceeded the required limit of 41 percent.

Assets

The material underwriting deficiencies related to assets included (1) improper verification of the source of the borrower's funds for the required investment and (2) no explanation for large deposits in the borrower's bank statements. For example, for loan 405-104624, the lender did not verify the source of funds paid at closing as required by the Section 184 processing guidelines. The loan file did not contain a bank statements or a verification of deposit.

Appraisal

The material underwriting deficiencies related to appraisals included (1) appraisal reports that were more than 120 days from the date of closing and (2) no verification that conditions listed on the appraisal report had been completed. For example, for case number 411-100219, the appraisal report was more than 120 days old. The loan closed on February 3, 2014, and the effective date of the appraisal report was July 16, 2013, which was 202 days from the date of closing. According to the Section 184 processing guidelines, the appraisal report is valid for 120 days.

Other

The material underwriting deficiencies related to other included (1) underwriters that were not approved by OLG underwriting loans, (2) no verification of the previous mortgage history (for refinance loan transactions), (3) borrowers receiving more than \$250 at closing (for no-cash-out refinances), and (4) borrowers not making the required investment. For example, for loan 405-024492, the borrower received \$5,786 at closing for a no-cash-out refinance transaction, which exceeded the maximum limit of \$250 as required by the Section 184 processing guidelines.

There was one loan (405-107185) for which the borrower was a housing authority. The Section 184 processing guidelines do not address requirements when the borrower is a housing authority. The loan file did not contain income or credit documentation for the housing authority. Further, the loan transaction was a cash-out refinance, and the housing authority received \$61,632, which was more than the required limit of \$25,000. The loan was underwritten by OLG, and the mortgage credit analysis worksheet stated that the \$25,000 limit was not applicable to housing authorities; however, this deviation from the requirement was not included in the Section 184 processing guidelines.

Guaranteed Loans Also Had Technical Underwriting Deficiencies

In addition to the 32 loans that contained material underwriting deficiencies, we identified 36 Section 184 loans¹¹ with technical underwriting deficiencies that did not comply with the Section 184 processing guidelines. The technical underwriting deficiencies were underwriting

¹⁰ The borrower's income was also overstated by \$1,787.

¹¹ See appendix D for details on technical underwriting deficiencies.

deficiencies that, even if corrected, would not result in a material increase in mortgage risk and did not affect the eligibility of the loan. Although the technical deficiencies did not impact loan eligibility and we did not recommend that OLG pursue indemnification of these loans, they provide another example of why more controls and oversight are needed. Examples of the technical underwriting deficiencies identified include the following

- No explanation of credit inquiries shown on the credit report for the last 90 days,
- Income or liabilities that were improperly determined but the revised debt-to-income ratio did not exceed the required limit of 41 percent,
- No proper verification of the earnest money deposit, and
- No verification of reported income by the Internal Revenue Service.

OLG Lacked Procedures for Enforcement Actions

OLG did not have specific policies and procedures relating to enforcement actions applied to direct guarantee lenders that originated poorly underwritten loans. More specifically, Section 184 regulations do not specifically outline indemnification authority, similar to what is available to FHA; preventing OLG from requesting indemnification agreements. Although lacking specific indemnification authority, Section

184 statutes do not prohibit OLG from requesting an indemnification agreement from direct guarantee lenders that originated a loan with material underwriting deficiencies. Requirements at 12 U.S.C. (United States Code) 1715z-13a(c)(4) state that HUD may establish

defenses against the originating lender in cases of fraud and misrepresentation and establish regulations creating partial defenses to amounts payable on the loan guarantee. In 2014, OLG denied the claim payment for one loan because the loan contained material underwriting deficiencies. In this case, the lender submitting the request for claim payment was also the originating lender of the loan. While the denial of payment appeared to be appropriate, there were no specific policies and procedures in place on the process for denial.

The Office of Loan Guarantee regulations do not specifically detail indemnification authority, similar to FHA.

Records Were Not Always Retained or Readily Available

OLG was not able to locate 23 loan files in its offsite storage facility, which resulted in the need to request replacement loans multiple times throughout the audit to review a total of 95 loan files and maintain the integrity of the statistical sample. OLG stated that the contractor hired to obtain information from all of the loan files in its storage facility did not replace the loan files in the correct location. Therefore, some of the loan files requested could not be found. However, based on the list of loans reviewed by the contractor and the log of loans at the storage facility, it appeared that some of the loan files were missing.

Conclusion

OLG did not provide adequate oversight of the Section 184 program, resulting in an increased overall risk to the program, including guaranteeing 3,845 loans totaling more than \$705 million that were not underwritten in accordance with program guidelines. On an annualized basis looking forward, this is equivalent to \$77 million¹² in loans that have a higher risk of loss in the first year. This condition occurred because OLG did not place enough emphasis on controls or resources to ensure adequate oversight of the program. One of the Section 184 program goals is to increase the marketability and value of Native American assets and strengthen the financial standing of Native American communities. However, the lack of oversight and high incidence of poorly underwritten loans has resulted in borrowers who obtained mortgage loans that would not have otherwise qualified. If HUD does not strengthen its oversight, there will continue to be an increased risk of default and foreclosure which has the potential of negatively impacting the financial standing of Native American communities.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for the Office of Native American Programs

- 1A. Develop and implement written policies and procedures with an emphasis on increased controls toward the monitoring, tracking, underwriting, and evaluating of the Section 184 program. Implementing these controls would reduce the current high level of risk in the program and result in potentially \$76,967,618 in funds to be put to better use (see appendix A).
- 1B. Develop and implement policies and procedures for a standardized monthly delinquency report format that lenders must follow when submitting information to OLG.
- 1C. Develop and implement policies and procedures to deny payments to direct guarantee lenders for claims on loans that have material underwriting deficiencies.
- 1D. Develop and implement policies and procedures to ensure that OLG uses enforcement actions available under 12 U.S.C. 1715z-3a(g) for lenders that do not underwrite loans according to the Section 184 processing guidelines.
- 1E. Request indemnification for the 26 loans that were underwritten by direct guarantee lenders and had material underwriting deficiencies¹³. The estimated loss to HUD is \$2,456,818.¹⁴

¹² This amount was calculated based on a projection of the material underwriting deficiencies and the FHA 50 percent loss severity rate. The FHA loss rate was used as the best estimate available, considering FHA has recently taken over the disposition of Section 184 real estate owned properties. See also the Scope and Methodology section for additional details.

¹³ We did not recommend indemnification for the remaining 6 loans that had material underwriting deficiencies as they were underwritten by OLG.

¹⁴ See appendix D.

- 1F. Request specific statutory authority to indemnify loans that are not underwritten in accordance with the Section 184 processing guidelines.
- 1G. Obtain support for one loan (405-021297) for which the loan file was missing documentation required for loan approval (for example, income, credit, and assets)¹⁵.
- 1H. Ensure that only underwriters that are approved by OLG are underwriting Section 184 loans.
- 1I. Develop and implement written policies and procedures for situations in which the borrower for a Section 184 loan is an Indian housing authority, a tribally designated housing entity, or an Indian tribe.
- 1J. Reconcile the total list of guaranteed Section 184 loans to the complete loan file storage list and identify and locate any missing loan files.
- 1K. Determine whether any of the loan files were missing as a result of the contracts for loan file storage or data recording and if so, seek monetary or administrative recourse for any contract nonperformance.

¹⁵ We did not recommend indemnification from the direct guarantee lender as the loan was underwritten by OLG.

Scope and Methodology

We performed our audit fieldwork from August 2014 to April 2015 at OLG in Washington, DC, and remotely at the Office of Inspector General (OIG), Office of Audit, in Phoenix, AZ. Our audit period covered loans that were guaranteed from January 1, 2010, to July 31, 2014.

To accomplish our objective, we

- Reviewed applicable HUD regulations, requirements, and guidelines;
- Interviewed appropriate OLG management and staff;
- Reviewed monthly and quarterly lender servicing reports;
- Reviewed OLG monitoring reports;
- Reviewed source documents in the loan files related to income, liabilities, and assets of the borrower(s); and
- Reviewed a stratified, systematic, statistical sample of 95 Section 184 loans guaranteed by OLG.

We selected a stratified, systematic, statistical sample to determine whether Section 184 loans were underwritten in accordance with the Section 184 processing guidelines. The sample was designed to detect material underwriting deficiencies and estimate the total number of loans and the associated dollar amount of loans with the same deficiencies in the audit universe. In addition, the sample projected the number of loans affected in a 1-year period following the audit universe timeframe, along with the amount of funds to be put to better use if material deficiencies are not addressed.

We obtained from OLG a list of Section 184 loans guaranteed during our audit period. During our audit period, there were 15,456 loans that totaled \$2.638 billion in loan guarantees. However, for the selection of our stratified, systematic, statistical sample we eliminated 332 loans that were considered to be outliers.

The final universe consisted of 15,124 loans that totaled \$2.495 billion in Section 184 loan guarantees. We identified a stratified, systematic, statistical sample of 95 loans for auditing from the audit universe. We used a systematic approach to help control for potential differences that may occur between loan underwriting reviews by HUD and reviews by the direct guarantee lender. After strata boundaries were determined, the data were sorted by whether HUD or a direct guarantee lender reviewed the underwriting within each stratum for the systematic sample pull. The data were sampled using a computer program written in SAS, using the survey select

procedure with a random-number seed value of 7. Spares were used for this audit because physical loan records were not available upon request. However, all spares were taken from their respective strata so there was no need to recalculate sampling weights. Of the 95 loans in our statistical sample, 73 were current and 4 were delinquent according to the December 2014 quarterly reports. We could not determine the status of the remaining 18 loans because we did not receive a quarterly report from all of the servicing lenders or could not find the loans on the reports received.

Based on a stratified, systematic sample of 95 loan records designed to minimize error, we can make the following statements:

Of the 95 loans reviewed, 32 materially failed a weighted average amount of \$62,803 per loan. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can say – with a one-sided confidence interval of 95 percent – that the average amount per underwritten loan that materially failed in our review was \$46,650. Extrapolating this amount to the audit universe of 15,124 loans and deducting for the margin of error, we can say – with a one-sided confidence interval of 95 percent – that this amounts to at least \$705 million, and it could be more. On an annualized basis looking forward 1 full year, this is equivalent to at least \$153 million in loans that would be underwritten for the objectives of the Section 184 loan program that that would not be underwritten in accordance with the Section 184 loan processing guidelines, and it could be more.

FHA has recently taken over the disposition of Section 184 real estate owned properties. Because of this, we determined it was appropriate to use the FHA loss severity rate, the best estimate available, to calculate the potential risk of loss from the \$153 million annualized projection. Therefore, we determined the potential risk of loss on an annualized bases looking forward 1 full year is the projection results annualized (\$153.9 million) multiplied by the 50 percent FHA loss severity rate. Projection results annualized = \$153,935,235 x 50 percent FHA loss severity rate = \$76,967,618.

Of the 95 loans reviewed, 32 materially failed a weighted average of 33.57 percent. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can say – with a one-sided confidence interval of 95 percent– that 25.43 percent of the loans met this criterion. Extrapolating this number to the audit universe of 15,124 loans and deducting for the margin of error, we can say– with a one-sided confidence interval of 95 percent– that this amounts to at least 3,845 loans, and it could be more.

We used data maintained by OLG to obtain the universe of loans. HUD’s Real Estate Assessment Center conducted a review of the Section 184 program before the start of our audit and identified weaknesses in the program. It issued a report on August 7, 2013, which, among other issues, determined that (1) the systems in the program were insufficient to handle the volume of loan transactions, (2) the budget and accounting applications did not interface with HUD’s general ledger system, (3) the accounting records were not reliable or complete, (4) OLG

underwriters did not follow a standardized process for underwriting loans, and (5) OLG could not generate a comprehensive list of properties owned by HUD. Therefore, we did not focus our review on the adequacy of systems used by OLG. We determined that the computer-processed data provided by OLG were reliable for the purpose of the audit.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Controls intended to ensure that Section 184 loans are underwritten in accordance with the Section 184 processing guidelines.
- Controls intended to ensure that HUD adequately monitors, tracks, and evaluates participating lenders.

We assessed the relevant controls identified above.

A deficiency in internal controls 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.

Material Deficiencies

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

- HUD did not have adequate controls to ensure that loans were underwritten in accordance with the Section 184 processing guidelines (finding).
- HUD did not have adequate controls to ensure that participating lenders were monitored, tracked, and evaluated (finding).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$76,967,618
1E	\$2,456,818
Totals	\$79,424,436


- 1/ 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 recommendations 1A and 1E will reduce the risk of loss to HUD if OLG implements controls to improve the oversight of lenders and loans that were guaranteed and seeks indemnification for loans identified with material underwriting deficiencies. The amount noted for recommendation 1A reflects the projection results annualized (\$153.9 million), looking forward 1 full year, multiplied by the 50 percent FHA loss severity rate. Projection results annualized = \$153,935,235 x 50 percent FHA loss severity rate = \$76,967,618. The amount noted for recommendation 1E reflects the principal balance for the 26 loans by the FHA 50 percent loss severity rate. See appendix D for the calculation of the estimated loss. The FHA loss severity rate was used because FHA has taken over the sale of Section 184 real estate-owned properties and the data for the Section 184 loss severity rate were not reliable.

Appendix B

Auditee Comments and OIG's Evaluation

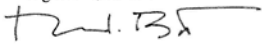
Ref to OIG Evaluation

Auditee Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000
OFFICE OF PUBLIC AND INDIAN HOUSING

JUN 12 2015

MEMORANDUM FOR: Tanya E. Schulze, Regional Inspector General for Audit,
Region IX, 9DGA

FROM: 
Rodger J. Boyd, Deputy Assistant Secretary for Native American Programs, PN

SUBJECT: Response to the Discussion Draft Report,
HUD's Office of Native American Programs (ONAP) Did Not Adequately Provide Oversight of the Section 184 Indian Housing Loan Guarantee Program

The Office of Inspector General (OIG) recently audited the Office of Native American Programs' (ONAP), Office of Loan Guarantee (OLG) and its "Section 184" program, which is a loan guarantee program for American Indians and Alaska Natives. ONAP has reviewed the subject draft report and accepts the OIG's finding with the following comments.

ONAP acknowledges there is significant room for improvement in this area. However, OLG believes that there is insufficient evidence to support the monetary loss assumptions in recommendation 1A. This IG recommendation is based on statistical analysis that used a small sample of loans, and the outcomes produced are not consistent with the actual claims experience over the 20-year life of the program. ONAP offers the following factors in support of OLG's position:

- The total of claims paid on Section 184 guaranteed loans since Fiscal Year (FY) 1995 through March 31, 2015, was 662 totaling payments of \$114.7 million.
- The totals fees collected and federal appropriations since FY 1995 are approximately \$142 million after the 2005 HUD rescission of \$33 million in credit subsidy.
- The Section 184 program undergoes an annual credit subsidy rate review with the Office of Management and Budget (OMB). OLG secured the services of Summit Consulting, which specializes in data analysis, risk analysis, and credit reform programs. The cash flow inputs for the CSC2 calculator are based on actual claims experience, and future risk is projected based on regressive analytics using the FHA single-family MMI curve and other econometric factors.

Comment 1

Comment 2

- The majority of the claims paid were for loans guaranteed at the height of the real estate bubble (see attachment A). Note the totals for claims paid in the period FY 2005 to FY 2009. The totals paid to date on loans from cohort years 2005-2009 were 471 loans, totaling \$93 million.
- In an effort to reduce risk for the agency, OLG has instituted increased borrower premiums. The upfront loan guarantee fee was raised from 1.0 percent to 1.5 percent of the mortgage in FY 2014. OLG also instituted a new annual premium of 0.15 percent of the unpaid balance in FY 2015. These measures provide a significant cost savings to the Agency and allow for improved use of the subsidy appropriation.

Thank you for the opportunity to comment on this draft report. ONAP will take the necessary actions to ensure compliance with the final report. If you have any questions about the comments, please contact Jennifer Bullough, Director, Office of Grants Evaluation, at (202) 404 4274.

Attachment

Comment 3

Claims by Cohort of Obligation as of 3-31-15

Cohort FY	# of Loans Endorsed	\$ of Loans Endorsed	Fees Collected	# Claims	Primary Claims \$	Suppl. Claims \$	Total Claims \$
1994	3	\$192,214.00	\$1,924.90	0	\$0.00	\$0.00	\$0.00
1995	22	\$1,965,422.00	\$17,234.27	0	\$0.00	\$0.00	\$0.00
1996	156	\$14,491,168.00	\$145,497.85	3	\$153,125.15	\$26,919.71	\$180,044.86
1997	213	\$22,454,026.00	\$230,442.50	9	\$502,957.38	\$34,519.97	\$537,477.35
1998	130	\$13,457,805.00	\$133,768.18	5	\$523,068.41	\$5,098.53	\$528,166.94
1999	132	\$11,886,921.00	\$71,092.57	14	\$811,592.33	\$98,880.59	\$910,472.92
2000	160	\$14,339,856.00	\$128,720.66	8	\$421,022.20	\$52,414.35	\$473,436.55
2001	100	\$11,814,144.00	\$116,898.15	6	\$814,628.37	\$40,235.43	\$854,863.80
2002	298	\$25,992,232.00	\$255,254.26	6	\$343,545.89	\$52,979.97	\$396,525.86
2003	365	\$39,228,689.00	\$384,129.23	13	\$1,223,694.29	\$244,360.16	\$1,468,054.45
2004	584	\$60,503,031.00	\$600,589.52	21	\$1,417,939.91	\$192,112.89	\$1,610,052.80
2005	774	\$98,456,033.00	\$974,477.24	46	\$5,542,677.34	\$672,254.51	\$6,214,931.85
2006	1183	\$182,166,395.00	\$1,804,358.34	99	\$16,187,070.80	\$1,895,858.82	\$18,082,929.62
2007	1380	\$226,083,847.00	\$2,242,693.63	95	\$18,631,601.07	\$1,992,721.62	\$20,624,322.69
2008	1694	\$297,310,870.00	\$2,950,930.83	130	\$28,482,883.67	\$2,844,879.90	\$31,327,763.57
2009	2882	\$480,026,908.00	\$4,808,294.67	101	\$15,317,738.61	\$1,436,378.43	\$16,754,117.04
2010	3274	\$533,533,152.00	\$5,264,079.42	68	\$8,614,454.16	\$1,058,464.76	\$9,672,918.92
2011	3130	\$506,079,739.00	\$4,970,412.41	20	\$2,309,515.12	\$465,431.51	\$2,774,946.63
2012	4265	\$753,307,310.00	\$7,472,587.03	16	\$1,986,174.10	\$150,673.51	\$2,136,847.61
2013	3119	\$549,145,647.00	\$5,448,809.54	2	\$204,372.98	\$0.00	\$204,372.98
2014	3624	\$629,095,091.00	\$7,752,006.77	0	\$0.00	\$0.00	\$0.00
2015	645	\$110,939,461.00	\$1,636,203.29	0	\$0.00	\$0.00	\$0.00
Total	28133	\$4,582,469,961.00	\$47,410,405.27	662	\$103,488,061.78	\$11,259,184.66	\$114,747,246.44

Claims by Fiscal Year of Payment as of 3-31-15

Claim FY	# Claims	Primary Claims \$	Suppl. Claims \$	Total Claims \$
1999	2	\$127,531.19	\$0.00	\$127,531.19
2001	4	\$184,406.92	\$0.00	\$184,406.92
2002	4	\$363,515.56	\$0.00	\$363,515.56
2003	5	\$455,312.18	\$0.00	\$455,312.18
2004	4	\$297,640.57	\$0.00	\$297,640.57
2005	7	\$484,777.22	\$76,504.69	\$561,281.91
2006	5	\$589,040.48	\$38,632.99	\$627,673.47
2007	6	\$450,891.64	\$23,606.16	\$474,497.80
2008	15	\$2,937,198.32	\$374,353.01	\$3,311,551.33
2009	26	\$4,375,975.74	\$410,481.52	\$4,786,457.26
2010	39	\$8,443,874.12	\$467,061.09	\$8,910,935.21
2011	73	\$16,444,759.66	\$1,620,637.82	\$18,065,397.48
2012	81	\$12,771,267.89	\$1,605,286.97	\$14,376,554.86
2013	139	\$25,967,578.74	\$2,889,493.34	\$28,857,072.08
2014	120	\$14,520,988.18	\$2,696,476.12	\$17,217,464.30
2015	132	\$15,073,303.37	\$1,106,650.95	\$16,179,954.32
Total	662	\$103,488,061.78	\$11,259,184.66	\$114,747,246.44

OIG Evaluation of Auditee Comments

Comment 1 We disagree with HUD's assertion that there is insufficient evidence to support the monetary assumptions in recommendation 1A. That recommendation states that the implementation of increased controls would result in nearly \$77 million in projected funds to be put to better use. The projections are based on material underwriting deficiencies, not claims. The projected amount refers to the higher claim risk associated with loans that have material underwriting deficiencies. It is not a projection on the amount of claims. Loans not underwritten in accordance with the Section 184 processing guidelines have a higher risk of loss even though the program has historically experienced low claim amounts.

As stated in the Scope and Methodology section of the audit report, we used a stratified, systematic, statistical sample to determine whether Section 184 loans were underwritten in accordance with the Section 184 processing guidelines. The sample was designed to detect material underwriting deficiencies, not claims, and estimate the total number of loans and the associated dollar amount of loans with the same deficiencies in the audit universe. In addition, the sample projected the number of loans affected in a 1-year period following the audit universe timeframe, along with the dollar amount of the materially deficient loans. A stratified, systematic, statistical sample of 95 loans was identified for auditing from the audit universe of 15,124 loans for the time period of January 1, 2010 to July 31, 2014. If a larger sample had been statistically selected, the related margin of error would have been reduced which would have resulted in a higher projection of deficient loans and the related dollar amounts.

Our review of the sample of 95 loans determined that 32 contained material underwriting deficiencies. Extrapolating the 32 loans to the audit universe of 15,124 loans resulted in a projection that OLG guaranteed 3,845 loans totaling at least \$705 million that contained material underwriting deficiencies. On an annualized basis looking forward 1 full year, this is equivalent to at least \$153 million in loans that would not be underwritten in accordance with the Section 184 processing guidelines. Applying the FHA loss severity rate of 50 percent results in the nearly \$77 million of funds to be put to better use.

Comment 2 As stated in comment 1, the monetary loss projections were not intended to correlate with the total amount of claims in the program. The monetary projections in the audit report are based on material underwriting deficiencies and as such, present the potential risk to the program if the recommendations are not implemented. Implementation of the recommendations will reduce this risk.

Comment 3 We appreciate HUD's acknowledgement of the finding and its plans to take necessary actions to address the audit report. However, HUD did not provide details on specific actions to address the recommendations. Any planned actions to resolve the audit recommendations will be evaluated during audit resolution.

Appendix C

Criteria

12 U.S.C. 1715z-13a, Loan guarantees for Indian housing

(c)(4), Fraud and misrepresentation – This subsection may not be construed to preclude the [HUD] Secretary from establishing defenses against the original lender based on fraud or material misrepresentation or to bar the Secretary from establishing by regulations in effect on the date of issuance or disbursement, whichever is earlier, partial defenses to the amount payable on the guarantee.

(g)(1), In general – If the Secretary determines that any lender or holder of a guarantee certificate under subsection (c) of this section has failed to maintain adequate accounting records, to adequately service loans guaranteed under this section, to exercise proper credit or underwriting judgment, or has engaged in practices otherwise detrimental to the interest of a borrower or the United States, the Secretary may (A) refuse, either temporarily or permanently, to guarantee any further loans made by such lender or holder; (B) bar such lender or holder from acquiring additional loans guaranteed under this section; and (C) require that such lender or holder assume not less than 10 percent of any loss on further loans made or held by the lender or holder that are guaranteed under this section.

(g)(2), Civil money penalties for intentional violations – If the Secretary determines that any lender or holder of a guarantee certificate under subsection (c) of this section has intentionally failed to maintain adequate accounting records, to adequately service loans guaranteed under this section, or to exercise proper credit or underwriting judgment, the Secretary may impose a civil money penalty on such lender or holder in the manner and amount provided under section 536 of the National Housing Act (12 USC 1735f-14) with respect to the mortgages and lenders under such Act.

Section 184, processing guidelines (effective January 2013¹⁶)

Section 5.2 (Verifications) – Credit, income and valuation information may not exceed 60 days at underwriting and may not exceed 120 days when the loan closes.

Section 5.2 (Non-Purchasing Spouse) – Except for the obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state or the property to be insured is located in a community property state... The community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

¹⁶ We included the most recent version of the Section 184 processing guidelines that applied to the loans reviewed; however, we identified multiple previous versions that were too large to present.

Section 5.3 – Lenders must investigate all derogatory credit during the past two years and require the borrower to explain in writing the reason(s) for the derogatory information...Borrower must meet the following credit requirements:

- No late payments in the past 12 months on all accounts.
- No bankruptcy, judgment, or liens in the past 24 months.
- No foreclosures within the last 36 months.
- No accounts converted to collection in the past 12 months.
- All collections must have been paid in full 12 months prior the date of application.

...Requests for exceptions to any of the above must be reviewed by the Office of Loan Guarantee underwriter and approval is on a case by case basis. Lenders must fully document an exception request with supporting evidence and/or show evidence the “credit issue” was a circumstance beyond the control of the borrowers.

Section 5.5 (Payment History on Previous Mortgagees or Rental/Residence) – The lender must include a recent 24 month history of mortgage, rental, or residence. Verifications can include: credit report, mortgage payment information from the financial institution, verification of rent from landlord and/or other alternative documents to support residency. All documentation must cover a 24 month payment history; identify the address and amount of monthly payment.

Section 5.5 (Revolving Accounts) – When revolving accounts with outstanding balances do not have stated minimum payments, payments should be calculated at the greatest of 5% of the outstanding balance or \$10 per month.

Section 5.5 (Judgments, Garnishments, or Liens) – All judgments, garnishments, or liens must show evidence of payment in full for at least 12 months prior to the date of application.

Section 5.5 (Collections) – All collections must show evidence of payment in full at least 12 months prior to the date of application. In addition, the applicant must furnish a written letter of explanation and must have good credit. An exception if applicant can provide evidence they were not aware of the collection prior to the date of loan application, or they have an accepted repayment plan and 12 month of timely payments made between the applicant and the entity owed; or the collection is for medical and evidence of third party responsibility.

Section 5.6 (Salaries, Wages, and Other Forms of Income) – The income of each borrower who is obligated by the mortgage debt must be analyzed to determine whether it can be expected to continue through the first 3 years of the mortgage loan.

Section 5.6 (Overtime and Bonus Income) – Overtime and bonus income may be counted as effective income if the borrower has received such income for the past 2 years.

Section 5.6 (Retirement and Social Security Income) – Income from retirement or social security is acceptable with verification of the award/approval letter, documentation supporting amount of monthly income and evidence it is expected to continue.

Section 5.6 (Alimony, Child Support, or Maintenance Payments) – Income in this category may be considered if such payments are likely to be received for the first 3 years of the mortgage. The borrower must provide a copy of the divorce decree or legal separation and evidence that payments have been made during the past 12 months.

Section 5.6 (Tribal Distribution) – If a borrower receives per capita income from their tribe, and this income can reasonably be expected to continue for the first 3 years of the mortgage, it can be used as qualifying income. The borrower must provide 1099's or W-2's to document a two year history. If the borrower has not received tribal distribution for two consecutive years the file must include a current per capita income statement and an executed statement from the tribe that verifies payments have been made to tribal members for a minimum of two years and is expected to continue. The lesser of the current per capita payment or two-year average will be used for income purposes.

Section 5.7 (Recurring Obligations) – The borrower's liabilities include all installment loans, revolving charge accounts, real estate loans, alimony, child support, and all other continuing obligations. In computing the debt-to-income ratios, the lender must include the monthly housing expense and all other additional recurring charges, including payments on installment and revolving accounts extending 6 months or more. Debts of less than 6 months' duration may be eliminated; unless the underwriter determines that the amount of the debt affects the borrower's ability to pay the mortgage.

Section 5.8 (Debt to Income Ratio) – The Office of Loan Guarantee uses a 41% debt to income ratio when seeking to qualify applications for a Section 184 loan. However, a debt to income ratio (without a co-borrower or co-signor) shall not exceed 45%.

Section 5.8 (Compensating Factors) – A debt to income ratio exceeding 41% may be acceptable if significant compensating factors are presented. Compensating factors include:

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expenses for the new mortgage.
- The borrower makes a large down payment (from their own funds) toward the purchase of the property (at least 10%).
- The borrower has documented substantial non-taxable income that has not been included as qualifying income.
- The borrower has substantial cash reserves after closing.
- Other reasonable and documented compensating factors will be considered based on supporting evidence.

Section 5.9 (Verification) – The source and adequacy of all funds used for the borrower’s investment in the property must be verified.

Section 5.9 (Funds to Close) – Acceptable sources of the borrower’s funds to close include savings and checking accounts. A verification of deposit and two months bank statements must be provided, or three consecutive months recent bank statements...If there is a large increase in an account, or the account was opened recently, an explanation and evidence of source of funds must be obtained by the lender.

Section 5.21 (Appraised Value) – The appraised value is the value as determined by a certified Federal Housing Administration approved appraiser. The loans final value must be based on either market or cost approach. The appraisal is valid for 120 days. To extend value for an additional 30 days, the request for recertification of value must be requested prior to the expiration of the appraisal.

Section 184 processing guidelines (effective April 2011)

Section 11.3 (No Cash-Out Refinance) – Borrowers are not permitted to receive cash back at closing. The maximum tolerance for minor adjustments at closing is \$250.

Section 11.5 (Credit and Non-Credit Qualifying Streamline Refinances) – Delinquent mortgages are not eligible for a streamline refinance. The lender must verify and document the payment history on the existing mortgage.

Section 11.5 (Credit and Non-Credit Qualifying Streamline Refinances) – The lender must include a signed and dated verification of employment (written or verbal).

Appendix D

Schedule of Losses for Loans With Material Underwriting Deficiencies

Section 184 loan number	Loan guarantee amount – underwritten by OLG ¹⁷	Loan guarantee amount – underwritten by direct guarantee lender	Estimated loss to HUD (50%)
022-026921	\$ -	\$ 169,680	\$ 84,840
022-028084	221,920	-	-
022-101088		411,537	205,769
022-101850		267,551	133,776
044-100087		67,735	33,868
064-100040		335,673	167,837
064-100125		340,609	170,305
064-100930		321,851	160,926
126-100102	244,834	244,834	122,417
225-100004		144,430	72,215
265-100067		105,754	52,877
405-023843	135,307	-	-
405-024492		262,909	131,455
405-028159	175,740	-	-
405-100430		256,691	128,346
405-101340	144,142	-	-
405-101606		135,905	67,953
405-101633		190,222	95,111
405-102830		191,900	95,950
405-103402		129,078	64,539
405-104230		134,734	67,367
405-104624		95,765	47,883
405-105016		167,306	83,653
405-105277		150,065	75,033
405-105282		224,573	112,287
405-106247		163,694	81,847
405-107259		149,530	74,765
411-100219	204,020	-	-
531-028239		116,301	58,151
531-100538		217,430	108,715
556-100375		105,100	52,550
556-100523		57,600	28,800
Totals	\$ 1,125,963	\$ 4,913,623	\$ 2,456,818

¹⁷ Loans were underwritten by OLG, therefore, there is no recommendation for indemnification.

Appendix E

Loans Reviewed and Deficiencies Identified

Section 184 loan number	Underwriting deficiencies					Deficiency type		
	Income	Credit	Assets	Appraisal	Other	None	Technical	Material
022-026483	-	-	-	-	-	X	-	-
022-026921	X	X	-	-	X	-	-	X
022-028084	X	X	-	-	X	-	-	X
022-100304	-	-	-	-	-	X	-	-
022-100454	-	-	-	-	-	X	-	-
022-100728	X	X	-	-	-	-	X	-
022-101028	-	-	-	-	-	X	-	-
022-101088	-	X	-	-	-	-	-	X
022-101311	-	X	-	X	X	-	X	-
022-101720	-	-	-	-	-	X	-	-
022-101850	X	X	X	-	X	-	-	X
044-100087	-	X	-	-	-	-	-	X
044-100415	-	-	-	-	-	X	-	-
044-100428	X	-	X	-	-	-	X	-
044-100494	-	-	-	-	-	X	-	-
044-101173	X	-	X	-	-	-	X	-
064-100040	-	-	-	-	X	-	-	X
064-100125	X	X	X	-	X	-	-	X
064-100495	-	-	-	-	-	X	-	-
064-100612	-	-	-	-	-	X	-	-
064-100818	-	-	X	X	X	-	X	-
064-100930	-	X	-	-	X	-	-	X
126-100102	-	X	X	-	-	-	-	X
181-100003	X	-	-	-	-	-	X	-
225-100004	X	X	-	-	X	-	-	X
265-100067	X	X	-	-	X	-	-	X
265-100084	X	-	-	-	-	-	X	-
276-100073	-	-	-	-	-	X	-	-
276-100108	-	X	X	-	-	-	X	-
354-100138	X	X	-	-	-	-	X	-
354-100515	-	X	-	X	-	-	X	-
376-026433	-	-	X	-	-	-	X	-
401-026947	-	-	-	-	-	X	-	-
405-021297	* ¹⁸	*	*	*	*	*	*	*

¹⁸ This loan did not contain the required income, credit, and asset documents for loan approval.

Section 184 loan number	Underwriting deficiencies					Deficiency type		
	Income	Credit	Assets	Appraisal	Other	None	Technical	Material
405-023843	X	X	X	-	X	-	-	X
405-024492	X	X	-	-	X	-	-	X
405-024646	-	X	X	-	-	-	X	-
405-024772	X	X	X	-	-	-	X	-
405-027459	X	-	-	-	-	-	X	-
405-027725	X	-	-	X	-	-	X	-
405-027920	X	-	-	-	-	-	X	-
405-028159	X	X	-	-	X	-	-	X
405-100053	-	X	-	-	-	-	X	-
405-100397	X	-	-	-	-	-	X	-
405-100430	X	X	X	-	-	-	-	X
405-100494	-	-	-	-	-	X	-	-
405-100688	-	X	X	-	X	-	X	-
405-100752	X	-	X	-	-	-	X	-
405-101005	-	-	-	-	X	-	X	-
405-101340	X	X	-	-	X	-	-	X
405-101606	X	X	-	X	X	-	-	X
405-101633	X	-	-	-	-	-	-	X
405-101730	-	X	-	X	-	-	X	-
405-101739	-	-	-	-	-	X	-	-
405-102209	X	X	-	X	-	-	X	-
405-102506	X	X	-	-	-	-	X	-
405-102717	-	-	-	-	-	X	-	-
405-102830	X	-	-	-	X	-	-	X
405-103373	-	-	X	-	-	-	X	-
405-103402	X	-	-	-	-	-	-	X
405-103606	-	-	-	-	-	X	-	-
405-103613	-	-	-	-	-	X	-	-
405-103629	-	-	X	-	-	-	X	-
405-103658	-	-	X	-	-	-	X	-
405-103976	-	X	-	-	X	-	X	-
405-104230	-	X	X	-	X	-	-	X
405-104411	X	-	-	-	-	-	X	-
405-104624	X	X	X	-	-	-	-	X
405-105016	-	-	X	X	-	-	-	X
405-105050	-	-	-	-	-	X	-	-
405-105277	X	-	-	-	X	-	-	X
405-105282	X	-	X	X	X	-	-	X
405-105546	X	-	X	-	-	-	X	-
405-105726	-	-	-	-	-	X	-	-
405-106209	-	-	X	-	-	-	X	-

Section 184 loan number	Underwriting deficiencies					Deficiency type		
	Income	Credit	Assets	Appraisal	Other	None	Technical	Material
405-106247	-	X	X	-	-	-	-	X
405-106488	-	-	-	-	-	X	-	-
405-106554	X	X	-	-	-	-	X	-
405-106890	-	-	X	-	X	-	X	-
405-107090	-	X	-	-	-	-	X	-
405-107185	* ¹⁹	*	*	*	*	*	*	*
405-107259	-	X	X	-	-	-	-	X
405-107534	-	-	-	-	-	X	-	-
411-027452	-	X	-	X	-	-	X	-
411-100219	-	-	-	X	-	-	-	X
463-100075	X	X	-	-	-	-	X	-
531-028239	X	-	-	-	X	-	-	X
531-100349	-	-	-	-	-	X	-	-
531-100538	-	X	X	-	-	-	-	X
531-100677	-	-	-	-	-	X	-	-
556-027729	-	-	-	-	-	X	-	-
556-100117	-	-	-	-	-	X	-	-
556-100375	X	X	-	-	-	-	-	X
556-100420	-	-	-	-	-	X	-	-
556-100523	X	X	-	-	X	-	-	X
Totals	39	40	27	11	25	25	36	32

¹⁹ The borrower of this loan was a housing authority. The Section 184 processing guidelines did not address requirements when the borrower was a housing authority.

Appendix F

Summaries for Loans With Material Underwriting Deficiencies

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

- Case number:** 022-026921
Loan type: Refinance (no cash out)
Closing date: 08/23/2010
Underwriter: Direct guarantee lender
Originating lender: Alaska USA Mortgage Company

We are seeking indemnification of this loan because (1) the lender did not obtain an explanation from the borrower for the derogatory credit that had occurred in the past 2 years, (2) the lender did not verify that there had been no late mortgage payments in the past 36 months, and (3) the underwriter was not on OLG's list of approved direct guarantee underwriters.

Credit

The lender did not obtain a letter of explanation from the borrower for the derogatory credit that had occurred in the past 2 years. The borrower's credit report showed that one account had seven late payments (60 days late) within 2 years of the closing date, and the loan file did not contain an explanation from the borrower as required by section 5.3 of the Section 184 processing guidelines (dated September 2009).

In addition, the loan file did not contain verification that the borrower had no late mortgage payments in the past 36 months as required by section 11.3 of the Section 184 processing guidelines (dated September 2009). The borrower's credit report was dated May 10, 2010, and did not show late mortgage payments; however, the loan closed approximately 3 months later (August 23, 2010). The only other documentation in the loan file that related to the previous mortgage was a monthly mortgage statement that was dated March 25, 2010. Therefore, the lender did not verify that the mortgage payments for June through August 2010 were timely.

Other

The loan was underwritten by a direct guarantee lender; however, the underwriter was not on the list of approved underwriters. Section 10.3 of the Section 184 processing guidelines (dated February 2008) requires underwriters to complete the Section 184 direct guarantee training.

2. **Case number:** 022-028084
Loan type: Refinance (no cash out)
Closing date: 12/27/2010
Underwriter: HUD
Originating lender: Alaska USA Mortgage Company

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified material underwriting deficiencies, which included that (1) documents used for income determination were more than 120 days old and (2) a collection account that was not paid.

Income

The loan file properly contained a copy of the borrower's pay stub as required by section 5.23 of the Section 184 processing guidelines (dated October 2010); however, it was more than 120 days old when the loan closed. Section 5.2 of the Section 184 processing guidelines (dated October 2010) states that income information may not exceed 120 days when the loan closes and that OLG's loan approvals are conditioned upon this requirement. The pay stub was for the period ending August 28, 2010, which was 121 days before the loan closed on December 27, 2010.

Credit

The borrower's credit report showed a collection account with a balance of \$8,919, and the loan file did not contain verification that it had been paid in full as required by section 5.3 of the Section 184 processing guidelines (dated October 2010). The guidelines state that an exception could be approved by OLG on a case-by-case basis and lenders must show evidence that the credit issue was a circumstance beyond the control of the borrowers. A letter from the borrower stated that the collection account was for a court fine; however, there was no evidence that the collection account was a circumstance beyond the control of the borrower.

3. **Case number:** 022-101088
Loan type: Streamline refinance
Closing date: 09/23/2012
Underwriter: Direct guarantee lender
Originating lender: Alaska USA Mortgage Company

We are seeking indemnification of this loan because the lender did not verify that the borrower's mortgage that was refinanced was current when the loan closed.

Credit

The lender did not verify that the mortgage being refinanced was current as required by section 11.5 of the Section 184 processing guidelines (dated April 2011). The credit report was dated August 1, 2012, and did not show late payments for the mortgage being refinanced. It was current as of July 2012; however, there was no verification in the loan file that the borrowers made the August and September 2012 mortgage payments.

4. **Case number:** 022-101850
Loan type: Purchase
Closing date: 03/21/2014
Underwriter: Direct guarantee lender
Originating lender: Alaska USA Mortgage Company

We are seeking indemnification of this loan because the revised debt-to-income ratio had increased from 35.96 to 88.04 percent, which exceeded the required limit of 41 percent. The increase was a result of the improper support of overtime income and understated liabilities.

Income

The lender determined the borrower's total monthly income based in part on overtime income; however, the lender did not verify that the borrower had received the overtime income for the past 2 years as required by section 5.6 of the Section 184 processing guidelines (dated January 2013). The verification of employment (dated February 9, 2014) documented overtime income for only approximately 13 months (from March 2013 to February 2014). As a result, the borrower's monthly income was overstated by \$1,707.

Credit

The lender understated the borrower's liabilities by \$2,007 because all of the liability accounts on the credit report were not included in the debt-to-income ratio. We could not determine how the lender calculated the total liabilities because the liabilities on the loan application totaled \$2,888 and the liabilities on the mortgage credit analysis worksheet totaled \$881. It appeared that the lender did not include three accounts (or part of three accounts) listed on the credit report.

- The lender did not include a mortgage with a payment of \$1,772 because the mortgage credit analysis worksheet stated that the borrower's ex-spouse was refinancing the mortgage in his name; however, there was no documentation in the loan file to support this statement. Also, the loan application noted that page four of the dissolution of marriage stated that the ex-husband was the sole debtor of the mortgage; however, the divorce decree in the loan file was only two pages, and it did not state anything about the mortgage.
- It appeared that the lender did not include two accounts with payments of \$163 and \$134 because the loan application stated "ex-husbands" for one account and "paid off" for the other account; however, there was no documentation in the loan file to support this statement.

5. **Case number:** 044-100087
Loan type: Streamline refinance
Closing date: 03/17/2011
Underwriter: Direct guarantee lender
Originating lender: Wells Fargo

We are seeking indemnification of this loan because the lender did not verify and document the payment history on the mortgage that was refinanced.

Credit

The loan file did not contain documentation to verify the payment history of the mortgage being refinanced as required by section 11.5 of the Section 184 processing guidelines (dated October 2010). The guidelines state that there must not be more than one mortgage payment 30 or more days late in the preceding 12 months and all mortgage payments must have been made in the month due for a minimum of 3 months before loan application.

6. **Case number:** 064-100040
Loan type: Purchase
Closing date: 02/08/2011
Underwriter: Direct guarantee lender
Originating lender: Gateway Mortgage

We are seeking indemnification of this loan because the debt-to-income ratio of 44.33 percent exceeded the required limit of 41 percent and the borrower did not have significant compensating factors.

Other

The debt-to-income ratio was 44.33 percent, exceeding the limit of 41 percent as required by Section 5.8 of the Section 184 processing guidelines (dated October 2010). The lender did not list compensating factors on the mortgage credit analysis worksheet, and we did not identify significant compensating factors for loan approval.

7. **Case number:** 064-100125
Loan type: Purchase
Closing date: 08/18/2011
Underwriter: Direct guarantee lender
Originating lender: Wells Fargo

We are seeking indemnification of this loan because (1) one account that was converted to collection within 12 months of closing and was not paid and (2) the underwriter was not on OLG's list of approved direct guarantee underwriters.

Credit

The borrower's credit report showed that the borrower had a liability account that was submitted to collection in March 2011 and had an outstanding balance of \$684. The loan file

did not contain evidence that the collection was paid in full and that an exception was approved by OLG. Section 5.5 of the Section 184 processing guidelines (dated April 2011) states that the borrower must not have had any accounts converted to collection in the past 12 months and all collections must have been paid in full 12 months before the date of application. The guidelines further state that requests for exceptions must be reviewed by the OLG underwriter and lenders must fully document an exception request.

Other

The loan was underwritten by a direct guarantee lender; however, the underwriter was not on the list of approved underwriters. Section 10.3 of the Section 184 processing guidelines (dated April 2011) requires underwriters to complete the Section 184 direct guarantee training.

- 8. **Case number:** 064-100930
- Loan type:** Purchase
- Closing date:** 02/14/2014
- Underwriter:** Direct guarantee lender
- Originating lender:** Mid America Mortgage

We are seeking indemnification of this loan because the revised debt-to-income ratio had increased from 35.23 to 103.17 percent, which exceeded the required limit of 41 percent. The increase was a result of the understated liabilities.

Credit

The lender did not include the student loan debt of the borrower's nonpurchasing spouse. The loan file contained several documents to justify the exclusion of the student loan debts; however, the situations described in the documents were not applicable to the borrower's current situation. The documents described situations of responsibility for the spouse's debt, including the spouse's death and the dissolution of debt in the event of a divorce. The student loan debt payments were set to begin within 12 months of closing; however, the credit report did not list monthly payments. Therefore, the monthly payments were calculated at 5 percent of the balance as required by section 5.5 of the Section 184 processing guidelines. As a result, the borrower's liabilities were understated by \$6,151.

- 9. **Case number:** 126-100102
- Loan type:** Purchase
- Closing date:** 05/31/2012
- Underwriter:** HUD
- Originating lender:** Wells Fargo

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified material underwriting deficiencies, which included (1) one account that was converted to collection within 12 months of closing and was not paid and (2) no verification of the previous housing payments.

Credit

The borrower's credit report showed that the borrower had a liability account that was submitted to collection in May 2011 and had an outstanding balance of \$142. The loan file did not contain an explanation from the borrower or evidence that an exception was approved by OLG staff that underwrote the loan. Section 5.3 of the Section 184 processing guidelines (dated April 2011) states that as part of the credit requirements, the borrower must not have had any accounts converted to collection in the past 12 months and all collections must have been paid in full 12 months before the date of application. The guidelines further state that requests for exceptions must be reviewed by the OLG underwriter and lenders must fully document an exception request.

In addition, the loan file did not contain a 12-month verification of the borrower's housing payment as required by section 5.23 of the Section 184 processing guidelines (dated April 2011).

10. Case number: 225-100004
Loan type: Purchase
Closing date: 03/28/2011
Underwriter: Direct guarantee lender
Originating lender: First United Bank and Trust

We are seeking indemnification of this loan because (1) one collection account was not paid and (2) the revised debt-to-income ratio had increased from 35.97 to 63.58 percent, which exceeded the required limit of 41 percent. The increase was a result of overstated income and understated liabilities.

Income

It appeared that the lender determined the borrower's total monthly income based in part on overtime income; however, the lender did not verify that the borrower had received the overtime income for the past 2 years as required by section 5.6 of the Section 184 processing guidelines (dated October 2010). The verification of employment documented the overtime income only from November 2010 to March 2011 (approximately 4 months). The verification of employment noted that the borrower's employment start date was in September 2009 and the company was acquired by another company in September 2010. When the company was acquired, the payroll from the new company did not start until November 2010, and the lender did not obtain the prior payroll records. The lender stated that it was not able to find the contact information for the prior company. However, the lender was not able to verify and document 2 years of overtime income. As a result, the borrower's monthly income was overstated by \$1,787.

Credit

The borrower's liabilities were understated by \$123 because the debts of the nonpurchasing spouse were not included as required by section 5.2 of the Section 184 processing guidelines, which states that the debts of the nonpurchasing spouse must be included in the borrower's

qualifying ratios if the borrower resides in a community property State or the property to be insured is located in a community property State.

In addition, the borrower's credit report showed that the borrower had a collection account with an outstanding balance of \$44, and the loan file did not contain evidence that the account was paid in full before closing. Also, there was no documentation showing that an exception was approved by OLG. Section 5.3 of the Section 184 processing guidelines (dated October 2010) states that as part of the credit requirements, all collections must have been paid in full 12 months before the date of application. The guidelines further state that requests for exceptions must be reviewed by the OLG underwriter and lenders must fully document an exception request.

11. Case number: 265-100067
Loan type: Purchase
Closing date: 09/16/2011
Underwriter: Direct guarantee lender
Originating lender: Chippewa Valley Bank

We are seeking indemnification of this loan because the debt-to-income ratio had increased from 44.53 to 68.26 percent, which exceeded the required limit of 41 percent. The increase was a result of overstated income and understated liabilities.

Income

The coborrower's income was overstated by \$1,286 because the lender did not determine whether the Social Security Income (for a disability) and the child support payments would be received for the first 3 years of the mortgage as required by section 5.6 of the Section 184 processing guidelines (dated April 2011).

Credit

The borrower's liabilities were understated by \$290 because the lender excluded two liabilities without appropriate supporting documentation. For the first liability, the lender excluded a rental property because the loan file stated that the daughter made the monthly payments. However, the loan file did not contain a lease agreement (if treated as rental property) as required by section 5.6 of the Section 184 processing guidelines (dated April 2011) or evidence that the daughter had made 12 consecutive payments (if the borrower was a cosignor) as required by section 5.7 of the Section 184 processing guidelines (dated April 2011). As a result, the borrower's liabilities were understated by \$184.

The lender excluded the second liability account because there were less than 10 payments remaining. However, there were 7.5 monthly payments remaining, and section 5.7 of the Section 184 processing guidelines (dated April 2011) states that debt of less than 6 months' duration may be eliminated unless that underwriter determines that the amount of the debt affects the borrower's ability to pay the mortgage. As a result, the borrower's liabilities were understated by \$106.

12. Case number: 405-023843
Loan type: Purchase
Closing date: 11/16/2009
Underwriter: HUD
Originating lender: Gateway Mortgage

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified material underwriting deficiencies, which included (1) no explanation for derogatory credit that had occurred in the past 2 years and (2) an increase in the revised debt-to-income ratio from 36.22 to 43.36 percent, which exceeded the required limit of 41 percent, without significant compensating factors. The increase was a result of overstated income.

Income

The lender overstated the borrower's other income by \$1,138. The loan file did not contain an explanation of what the other income listed on the mortgage credit analysis worksheet entailed or how it was calculated. It appeared that the income was based on overtime, commission, and other income listed on the verification of employment. However, the overtime and commission income had not been earned for 2 years, and there was no justification documented in the loan file for using these incomes for qualifying purposes. Also, it appeared that the other income listed on the verification of employment included base pay categories, such as holiday and paid time off, which were included in the borrower's base monthly income because the base pay on the verification of employment averaged \$2,619 per month and the base pay using the pay stubs and hourly rate averaged \$3,149 per month.

Credit

The underwriter did not obtain a letter of explanation from the borrower for the derogatory credit (two accounts with 30- to 90-day late payments) that had occurred within the past 2 years as required by section 5.3 of the Section 184 processing guidelines (dated February 2008).

In addition, the projected increase in the borrowers' housing expense significantly exceeded the prior housing expense (from \$639 to \$1,013), and the borrowers did not exhibit an ability to accumulate savings or manage their financial affairs as required by section 5.5 of the Section 184 processing guidelines (dated February 2008). The borrowers did not have compensating factors as required by section 5.5 of the Section 184 processing guidelines (dated February 2008).

13. Case number: 405-024492
Loan type: Refinance (no cash out)
Closing date: 02/04/2010
Underwriter: Direct guarantee lender
Originating lender: Bank 2

We are seeking indemnification of this loan because (1) the borrower received more than the maximum amount at closing and (2) the revised debt-to-income ratio had increased from 41.89 to 170.97 percent, which exceeded the required limit of 41 percent. The increase was a result of overstated income and understated liabilities.

Income

The lender did not properly support or verify the coborrower's income. There were two pay stubs in the loan file for the periods October 1 to November 3, 2009, and October 1 to November 2, 2009. The lender determined that the coborrower's monthly income was \$3,879 because this amount was stated as the pay rate; however, the first pay stub did not show gross earnings, and the second pay stub showed gross earnings of only \$112 for overtime. As a result, the coborrower's income was overstated by \$3,879.

Credit

The lender calculated the monthly payments for one of the borrower's liability accounts as \$450; however, it was understated by \$2,649. The credit report showed that the borrower had a liability account with a balance of \$61,978 and monthly payments of \$3,099. However, the lender obtained a letter from the creditor stating that there were no required payments on the note, but it came due on January 15, 2011 (within 1 year of the closing date). The letter stated that the borrower paid the note down from cattle sales and had agreed to purchase insurance on the cattle and in case of a loss, the borrower's monthly payments would be \$450 per month or less. The lender should have calculated the monthly payments for this account based on 5 percent of the outstanding balance as required for accounts that have no specific monthly payments, which is \$3,099. As a result, the liabilities were understated by \$2,649.

Other

The borrower received \$5,786 at closing, which exceeded the maximum amount of \$250 as required by section 11.3 of the Section 184 processing guidelines (dated September 2009).

14. Case number: 405-028159
Loan type: Refinance (cash out)
Closing date: Could not determine (no HUD-1 settlement statement in loan file)
Underwriter: HUD
Originating lender: Bank of Oklahoma

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified material underwriting deficiencies, which included (1) no net benefit to the borrower as a result of the refinance and (2) an increase in the revised debt-to-income ratio

from 42.50 to 57.20 percent, which exceeded the required limit of 41 percent. The increase was a result of overstated income and understated liabilities.

Income

The underwriter overstated the borrower's other income by \$202. The loan file did not contain an explanation of what the other income listed on the mortgage credit analysis worksheet entailed or how it was calculated. Based on the loan application, it appeared that the income was based on overtime and net rental income. The underwriter documented that the borrower had received the overtime for the past 2 years; however, there was a significant decline from 2009 to 2010, and the underwriter did not provide a sound rationale for including the income as required by the Section 184 processing guidelines. Therefore, we calculated the overtime income based on the most recent year (2010), which was \$205 per month.

For the net rental income, the borrower's tax return showed two rental properties; however, the first rental property had a loss, and the second rental property had been sold.

Credit

The underwriter understated the borrower's liabilities by \$650 because at least one account listed on the credit report was not included in the total debt. We could not determine how the underwriter calculated the borrower's liabilities; however, we determined the borrower's total debt based on the accounts listed on the credit report. It appeared that at least one account with a monthly payment of \$507 was not included in the borrower's total debt.

Other

The underwriter did not determine that there was a net benefit to the borrower as a result of the cash-out refinance as required by the Section 184 processing guidelines. The borrower's housing payment increased, and the new loan term was 30 years.

15. Case number: 405-100430
Loan type: Purchase
Closing date: 04/29/2011
Underwriter: Direct guarantee lender
Originating lender: Gateway Mortgage

We are seeking indemnification of this loan because (1) one account was converted to collection within 12 months of closing and (2) one collection account was not paid.

Credit

The borrower's credit report showed that the borrower had a liability account that was submitted to collection in March 2011, which was within 12 months of closing. The loan file did not contain an explanation from the borrower or evidence that an exception was approved by OLG. Section 5.3 of the Section 184 processing guidelines (dated October 2010) states that the borrower must not have had any accounts converted to collection in the past 12

months. The guidelines further state that requests for exceptions must be reviewed by the OLG underwriter and lenders must fully document an exception request.

In addition, the borrower's credit report showed a collection account with a balance of \$569, and the loan file did not contain verification that it had been paid in full as required by section 5.3 of the Section 184 processing guidelines (dated October 2010). The guidelines state that an exception could be approved by OLG on a case-by-case basis. The loan file did not contain evidence that an exception was approved by OLG.

16. Case number: 405-101340
Loan type: Purchase
Closing date: 09/21/2011
Underwriter: HUD
Originating lender: Bank 2

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified material underwriting deficiencies, which included that the revised debt-to-income ratio had increased from 43.50 to 47.81 percent, which exceeded the required limit of 41 percent, without significant compensating factors. The increase was a result of understated liabilities.

Credit

The borrower's liabilities were understated by \$396 because the underwriter excluded a student loan debt and the monthly payment amount for another student loan debt was not supported. For the first student loan debt (excluded by the underwriter), a letter from the creditor stated that the loan was in forbearance until July 17, 2012, which was within 12 months of closing and was required to be included in the borrower's liabilities as required by section 5.7 of the Section 184 processing guidelines (dated April 2011). The letter also stated that the borrower had used 22 months of the maximum amount of forbearance, which was up to 60 months, subject to eligibility. However, there was no documentation in the loan file showing that the borrower elected to extend the forbearance or was eligible to do so. In addition, a note in the loan file stated that the loan was included in the borrower's total debt.

For the second student loan debt, the credit report stated that it was deferred but did not state how long the deferment period was or the monthly payment amount. We could not determine how the underwriter calculated the monthly payment of \$218 that was used. We calculated the monthly payment based on 5 percent of the balance ($5\% \times \$10,090 = \505) as required by section 5.7 of the Section 184 processing guidelines (dated April 2011).

17. Case number: 405-101606
Loan type: Refinance (no cash out)
Closing date: 10/26/2011
Underwriter: Direct guarantee lender
Originating lender: First United Bank and Trust

We are seeking indemnification of this loan because the borrower received more than the maximum amount at closing.

Other

The borrower received \$739 at closing, which exceeded the maximum amount of \$250 as required by section 11.3 of the Section 184 processing guidelines (dated April 2011).

18. Case number: 405-101633
Loan type: Streamline refinance
Closing date: 11/09/2011
Underwriter: Direct guarantee lender
Originating lender: Arvest Bank

We are seeking indemnification of this loan because there was no verification of employment.

Income

The lender did not conduct a verification of employment for the borrower or coborrower as required by section 11.5 of the Section 184 processing guidelines (dated April 2011). A cursory review of the file by OLG indicated that the verification of employment was not performed and stated that the borrowers were retired and only one award letter was received annually from the Social Security Administration. However, the loan application stated that the borrowers were not retired. In addition, there was no award letter from the Social Security Administration in the loan file or other documentation indicating that the borrowers were retired and were receiving Social Security benefits. When the loan closed, the borrowers were only 46 and 48 years of age and, therefore, were not eligible to receive Social Security benefits for retirement.

19. Case number: 405-102830
Loan type: Refinance (no cash out)
Closing date: 04/20/2012
Underwriter: Direct guarantee lender
Originating lender: Mortgage Broker Network

We are seeking indemnification of this loan because there were no pay stubs for the borrower and coborrower.

Income

The lender did not obtain the pay stubs for the borrower or coborrower as required by section 5.23 of the Section 184 processing guidelines (dated April 2011). Also, the verification of employment did not contain income information. Therefore, we were not able to determine the borrower's or coborrower's monthly income.

20. Case number: 405-103402
Loan type: Streamline refinance
Closing date: 08/31/2012
Underwriter: Direct guarantee lender
Originating lender: Bank of Oklahoma

We are seeking indemnification of this loan because the lender did not conduct a verification of employment.

Income

The lender did not conduct a verification of employment for the borrower or coborrower as required by section 11.5 of the Section 184 processing guidelines (dated April 2011). According to the loan application, the borrower was retired, and the coborrower was disabled; however, the lender did not verify that the borrowers received Social Security benefits. The only documentation in the loan file indicating that the coborrower received Social Security benefits was a form SSA-1099 for 2007, which was received 4 years before the loan closed in 2012.

21. Case number: 405-104230
Loan type: Purchase
Closing date: 09/28/2012
Underwriter: Direct guarantee lender
Originating lender: Citywide Mortgage

We are seeking indemnification of this loan because (1) there were no significant compensating factors for the debt-to-income ratio that exceeded 41 percent and (2) there was no verification of the borrower's previous housing payments.

Credit

The lender did not conduct a 12-month verification of the borrower's housing payments as required by section 5.23 of the Section 184 processing guidelines (dated April 2011).

Other

The borrower's debt-to-income ratio exceeded the required limit of 41 percent, and the lender did not document significant compensating factors as required by section 5.8 of the Section 184 processing guidelines. The borrower's debt-to-income ratio was 44.89 percent, and the only compensating factor listed in the loan file was the loan-to-value ratio of 92.26 percent. We did not identify any other compensating factors.

22. Case number: 405-104624
Loan type: Purchase
Closing date: 11/19/2012
Underwriter: Direct guarantee lender
Originating lender: Gateway Mortgage

We are seeking indemnification of this loan because (1) there was no verification of the borrower's previous housing payments and (2) there was no verification of the required funds to close the loan.

Credit

The lender did not conduct a 12-month verification of the borrower's housing payments as required by section 5.23 of the Section 184 processing guidelines (dated April 2011).

Assets

The borrower paid \$1,683 at closing; however, the lender did not verify the source of these funds as required by section 5.9 of the Section 184 processing guidelines (dated April 2011). The loan file did not contain bank statements or a verification of deposit.

23. Case number: 405-105016
Loan type: Purchase
Closing date: 11/19/2012
Underwriter: Direct guarantee lender
Originating lender: First American Mortgage

We are seeking indemnification of this loan because there was no verification that the conditions listed on the appraisal report had been completed.

Appraisal

The appraisal report stated that the appraisal was made subject to the completion of four items (touchup painting and installation of the fence, stove, and garage door opener). There was no confirmation in the loan file that the conditions listed on the appraisal report had been completed.

24. Case number: 405-105277
Loan type: Purchase
Closing date: 04/26/2013
Underwriter: Direct guarantee lender
Originating lender: Gateway Mortgage

We are seeking indemnification of this loan because the probability of continued employment was not properly analyzed.

Income

The lender conducted a verification of employment for the borrower; however, the verification of employment stated that the borrower was a teacher on a temporary contract. The lender did not follow up with the employer to determine whether the borrower's employment could be expected to continue through the first 3 years of the mortgage loan as required by section 5.6 of the Section 184 processing guidelines (dated January 2013).

25. Case number: 405-105282
Loan type: Purchase
Closing date: 04/15/2013
Underwriter: Direct guarantee lender
Originating lender: Leader Mortgage

We are seeking indemnification of this loan because (1) the source of large increases in the bank statements was not verified and (2) the required downpayment was not made.

Assets

The borrower had two large deposits totaling \$12,500 that were not explained as required by section 5.9 of the Section 184 processing guidelines (dated January 2013). The borrower's assets totaled \$13,157, and according to the mortgage credit analysis worksheet, the required investment was \$5,150.

Other

The borrower did not make the required downpayment of \$5,150, according to the mortgage credit analysis worksheet. The borrower paid \$8,525 at closing (including the earnest money deposit); however, one of the borrower's liability accounts was paid at closing and totaled \$3,550. Therefore, the borrower's downpayment totaled \$4,975 (\$8,525 - \$3,550), which was \$175 lower than the required investment.

26. Case number: 405-106247
Loan type: Purchase
Closing date: 08/20/2013
Underwriter: Direct guarantee lender
Originating lender: First Commercial Bank

We are seeking indemnification of this loan because (1) there were two accounts with late payments within 12 months of closing, (2) there was no explanation of the derogatory credit that had occurred in the past 2 years, (3) there was no verification of the previous housing payments, and (4) there was no verification of the borrower's source of funds for the required investment.

Credit

The borrower's credit report showed that the borrower had two liability accounts that had late payments within 12 months of closing. The loan file did not contain evidence that an exception was approved by OLG. Each account had one "90 day" late payment reported in September 2012, which were within 12 months of the loan closing. Section 5.3 of the Section 184 processing guidelines (dated January 2013) states the borrower must not have had any late payments in the past 12 months. The guidelines further state that requests for exceptions must be reviewed by the OLG underwriter and lenders must fully document an exception request.

Also, the lender did not obtain a letter of explanation from the borrower for the derogatory credit (two accounts with 30- to 90-day late payments) that had occurred within the past 2 years as required by section 5.3 of the Section 184 processing guidelines (dated January 2013).

In addition, the lender did not conduct a 24-month verification of the borrower's housing payment as required by section 5.5 of the Section 184 processing guidelines (dated January 2013).

Assets

The borrower made a downpayment of \$5,063 at closing; however, the lender did not properly verify the source of the funds used for the borrower's investment in the property as required by section 5.9 of the Section 184 processing guidelines (dated January 2013). The lender obtained only one of the three required bank statements, and it did not list beginning or ending balance.

27. Case number: 405-107259
Loan type: Purchase
Closing date: 02/21/2014
Underwriter: Direct guarantee lender
Originating lender: Armstrong Bank

We are seeking indemnification of this loan because there was no verification of the borrower's source of funds for the required investment.

Assets

The borrower paid \$3,497 at closing; however, the lender did not verify the source of these funds as required by section 5.9 of the Section 184 processing guidelines (dated January 2013). The lender listed assets totaling \$30,039 on the borrower's loan application, which consisted of a checking account, a savings account, and proceeds from the sale of a previous home. However, the loan file contained documentation for only the checking account, which had a balance of \$648. Therefore, the lender did not properly verify \$2,849 of the \$3,497 that the borrower paid at closing.

28. Case number: 411-100219
Loan type: Purchase
Closing date: 02/03/2014
Underwriter: HUD
Originating lender: Wells Fargo

We are not seeking indemnification of this loan because HUD was the underwriter; however, we identified a material underwriting deficiency, which was the appraisal report was more than 120 days old.

Appraisal

The effective date of the appraisal report was July 16, 2013, which was 202 days before the loan closed on February 3, 2014. Section 5.21 of the Section 184 processing guidelines (dated January 2013) states that appraisals are valid for 120 days. An email from the underwriter, documented in the loan file, stated that the appraisal had expired on November 16, 2013, and it needed to be updated. The firm commitment states that a policy directive issued in 2011 allows for a 6-month seasoning period for new construction appraisals; however, the appraisal was more than 6 months old when the loan closed.

29. Case number: 531-028239
Loan type: Purchase
Closing date: 01/10/2011
Underwriter: Direct guarantee lender
Originating lender: Guild Mortgage

We are seeking indemnification of this loan because the revised debt-to-income ratio had increased from 41.14 to 46.42 percent, which exceeded the required limit of 41 percent, without significant compensating factors. The increase was a result of overstated income.

Income

The lender calculated the borrower's other income to be \$1,225 per month; however, we were not able to determine how it was calculated. The loan file documented three types of other income, which included per capita from the borrower's tribe (\$840 per month), elderly assistance from the borrower's tribe (\$200 per month), and income from the State of Washington Employment Security Department (\$1,686 per month). The only income that should have been used in the borrower's debt-to-income ratio was the per capita income from the borrower's tribe. The per capita income was calculated based on the average of the past 2 years using the form 1099-MISC as required by section 5.6 of the Section 184 processing guidelines. Therefore, the lender overstated the borrower's other income by \$386.

The elderly assistance received from the borrower's tribe did not qualify because we could not determine whether this assistance was included with the per capita income on the form 1099-MISC. Also, the lender did not verify a 2-year history or average of this income as required with other types of income. The loan file documented only a 2-month history of payments.

The income from the State of Washington Employment Security Department did not qualify because the lender did not determine whether this income would continue through the first 3 years of the mortgage. The statements showed that the gross amounts were \$389 per week, and there was a field for the balance, which was decreased by the amount paid each week. The balance as of November 7, 2010, was \$8,947, which indicated that there were 23 more weekly payments (approximately 5-6 months). Also, the lender did not verify a 2-year history or average of this income as required with other types of income. The lender documented only a 4-week history of payments.

30. Case number: 531-100538
Loan type: Purchase
Closing date: 07/31/2013
Underwriter: Direct guarantee lender
Originating lender: Sterling Savings Bank

We are seeking indemnification of this loan because there was (1) no verification that a lien was paid in full and (2) no verification of the source of large deposits in the bank statements.

Credit

The title policy showed a claim for \$2,591 against the borrower, which would attach to the property. The borrower provided an explanation for the lien and stated that the remaining balance would be paid; however, the loan file did not verify that the lien had been paid in full as required by section 5.5 of the Section 184 processing guidelines (dated January 2013).

Assets

The borrower had several large deposits and explained most of them but did not explain five deposits that totaled \$3,404 as required by section 5.9 of the Section 184 processing guidelines (dated January 2013). The borrower's assets totaled \$4,221, and she paid \$3,546 at closing.

31. Case number: 556-100375
Loan type: Streamline refinance
Closing date: 01/11/2013
Underwriter: Direct guarantee lender
Originating lender: Bay Bank

We are seeking indemnification of this loan because there was no verification that the borrower's mortgage being refinanced was current when the loan closed.

Credit

The lender did not verify that the mortgage being refinanced was current or that the borrower did not have more than one mortgage payment 30 or more days late in the past 12 months. The loan file did not contain documentation relating to the mortgage's having been refinanced.

32. Case number: 556-100523
Loan type: Purchase
Closing date: 12/27/2013
Underwriter: Direct guarantee lender
Originating lender: Bay Bank

We are seeking indemnification of this loan because (1) there was a collection account that was not paid, (2) there was no verification of the previous housing payments, and (3) the revised debt-to-income ratio had increased from 27.14 to 47.64 percent, which exceeded the required limit of 41 percent, without significant compensating factors. The increase was a result of overstated income and understated liabilities.

Income

The lender overstated the borrower's income because it did not obtain a 2-year history of the borrower's other income (per capita) as required by the Section 184 processing guidelines. The loan file contained only a 1-year history of the other income. As a result, the borrower's other income was overstated by \$100.

The lender also overstated the coborrower's income by \$308 because the documentation in the loan file did not support the amount calculated. The lender calculated the borrower's monthly income as \$2,253, which was based on the pay rate and 40 hours per week; however, the verification of employment supported only \$1,945 per month (\$14,529 base pay divided by 7.47 months). Also, the pay stubs in the loan file were not adequate because they did not show pay information other than the net amount paid.

Credit

The borrower's credit report showed a collection account with a balance of \$541, and the loan file did not contain verification that it had been paid in full as required by section 5.3 of the Section 184 processing guidelines (dated January 2013). The loan file also did not contain documentation showing that an exception was provided by OLG.

In addition, the loan file did not contain a 24-month verification of the borrower's housing payment as required by section 5.5 of the Section 184 processing guidelines (dated January 2013).