



Federal Housing Administration, Washington, DC

Single-Family Mortgage Insurance Claims

This report was revised on March 30, 2017 to change the cost type for recommendation 1A on pages 12 and 17 from unreasonable or unnecessary to funds to be put to better use. This change is needed to align the report language with the terminology used by HUD's audit tracking system.

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

**Audit Report Number: 2017-KC-0001
October 14, 2016**



To: Robert Mulderig, Acting Deputy Assistant Secretary, Office of Single Family Housing, HU
George Rabil, Deputy Assistant Secretary, Office of Finance and Budget, HW

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

Subject: FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's monitoring and payment of conveyance claims upon termination of Federal Housing Administration-insured mortgages.

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 913-551-5870.



Audit Report Number: 2017-KC-0001

Date: October 14, 2016

FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time

Highlights

What We Audited and Why

We reviewed the Federal Housing Administration's (FHA) monitoring and payment of single-family conveyance claims. A conveyance claim occurs when the holder of the mortgage loan transfers the property to the U.S. Department of Housing and Urban Development (HUD) and submits a claim for FHA insurance benefits. These functions are located in HUD's Office of Single Family Housing and Office of Finance and Budget. We initiated our review due to concerns that HUD overpaid servicers' claims for FHA insurance benefits. Our audit objective was to determine whether HUD paid servicers' claims for properties that did not foreclose or convey on time.

What We Found

HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time. HUD paid an estimated \$141.9 million for servicers' claims for unreasonable and unnecessary debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated \$2.09 billion for servicers' claims for unreasonable and unnecessary holding costs that were incurred after the deadline to convey. While it was reasonable for servicers to pay costs to preserve the property and complete the foreclosure process, it was unnecessary and unreasonable for HUD to pay for such costs after the date the servicer was required to convey. The claim would have been reduced if servicers conveyed on time and these funds would have been available for the needs of the FHA mortgage insurance fund.

What We Recommend

We recommend that HUD issue a change to 24 CFR (Code of Federal Regulations) Part 203, which corrects deficiencies that allowed an estimated \$2.23 billion in unreasonable and unnecessary costs to the FHA insurance fund. These changes include a maximum period for filing insurance claims and disallowance of expenses incurred beyond established timeframes. We recommend that HUD develop a strategic information technology plan to make significant operational changes to HUD's monitoring of single-family conveyance claims to ensure that servicers comply with foreclosure and conveyance timeframes. We also recommend that HUD develop and implement controls to identify noncompliance with current regulations at 24 CFR 203.402.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) provides mortgage insurance on home loans made by its approved lenders. This insurance is paid for by borrowers and provides lenders and servicers with protection against losses if the homeowner defaults on the loan. Servicers may submit an insurance claim to HUD for losses incurred if a property is foreclosed upon. However, the servicer must first attempt to work with the homeowner and consider options available as part of HUD's loss mitigation program, which can assist the borrower in bringing the loan current or allow the borrower to dispose of the home without foreclosure. If loss mitigation is not successful, conveyance of the property title to HUD is one option available to servicers.

During a conveyance claim, the servicer obtains the property through foreclosure and transfers the property to HUD. The servicer then submits a claim to HUD for its unpaid mortgage principal and other holding costs. These holding costs include legal, property acquisition, taxes, ground rents, utility, insurance, operating, protection, preservation, inspection, and debris removal costs. HUD conducts servicer monitoring and pre-conveyance property reviews within the Office of Single Family Housing. HUD processes conveyance claims for payment and conducts postclaim reviews within the Office of Finance and Budget.

Table 1 shows the loan amounts for all currently insured FHA loans, the seriously delinquent rate, and the percentage of total loans in foreclosure. The seriously delinquent rate is the sum of 90-day delinquencies, loans in foreclosure, and bankruptcies.

Table 1

FHA single-family performance metrics	2013	2014	2015
Active insurance (\$ million)	\$7,818,596	\$7,758,608	\$7,779,458
Seriously delinquent rate (%)	8.02	7.00	5.79
In foreclosure (%)	2.21	2.14	1.85

HUD issues yearly actuarial reports about the projected gains, losses, and other risks to the FHA insurance fund. As of June 30, 2015, FHA estimated that more than 130,000 loans had begun the foreclosure process but claims had not been filed. Of these, more than 31,000 loans showed indications of foreclosure or conveyance delays as of the end of July 2015. HUD estimated that these delayed claims could result in a more than \$150 million reduction in economic value of the FHA insurance fund.

In July 2015, HUD submitted a proposed rule for public comment in the Federal Register (FR-5742). HUD proposed to establish a maximum period for servicers to file a claim for insurance benefits and curtail servicers' claims for property preservation and administrative costs occurring

after the date on which the servicer should have filed a claim. HUD proposed to allow servicers 12 months from the expiration of the reasonable diligence timeline to convey the property. HUD stated that the proposed rule would improve its ability to protect the FHA insurance fund.

The proposed rule was not implemented. Mortgage servicers expressed concern that such changes were not realistic, citing unavoidable delays in the foreclosure process. HUD continued to pursue changes to FHA program regulations and has met with leaders in the mortgage industry to reissue proposed changes.

Our objective was to determine whether HUD paid claims for properties that servicers did not foreclose upon or convey on time. This report is specific to conveyance claims only and does not address other FHA insurance termination options, including preforeclosure, third-party, or note sale claims. These other termination options could have resulted in additional loans for which servicers missed their foreclosure deadlines. Conveyances make up approximately 56 percent of all single-family FHA claim terminations.

Results of Audit

Finding 1: HUD Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time

HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time. This condition occurred because HUD did not have adequate controls to ensure that servicers complied with Federal regulations. As a result, HUD paid an estimated \$141.9 million for servicers' claims for unreasonable and unnecessary debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated \$2.09 billion for servicers' claims for unreasonable and unnecessary holding costs that were incurred after the deadline to convey.

HUD Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time

Servicers missed their foreclosure and conveyance deadlines and did not report proper self-curtailment dates of their debenture interest (interest on the mortgage loan balance).

We reviewed a statistical sample of 90 claims HUD paid from nearly 250,000 with indicators that they had missed their deadlines in the past 5 years. We reviewed each loan in our sample using applicable regulations, HUD handbooks, and mortgagee letters to determine whether servicers foreclosed or conveyed on time (appendix C). The conveyance deadline is important because it is the date the servicer transfers title to the property and all associated responsibilities to HUD. Of the 90 loans reviewed, 89 missed a foreclosure deadline, a conveyance deadline, or both. We projected the sample results to our universe of nearly 250,000 claims to determine that HUD paid claims for 238,978 properties that servicers did not foreclose upon or convey on time (appendix D).

Servicers Missed Their Foreclosure Deadlines

Servicers missed their deadlines to initiate foreclosure, finalize foreclosure and secure the properties, and convey the properties to HUD. The foreclosure and conveyance process is sequential, so when a servicer misses the foreclosure deadline, it is more likely to miss the conveyance deadline as well. It is necessary to evaluate all three timelines in order to determine the proper curtailment date and to determine whether the conveyance is ultimately on time.

Table 2 below shows how often servicers did not meet these different deadlines for the loans reviewed.

Table 2

Missed deadline	Number of loans	Percentage of sample
Deadline to initiate foreclosure	56	62
Deadline to finalize foreclosure and secure the property	68	76
Deadline to convey the property to HUD	87	97
Loans that missed any deadline of the sample size of 90	89	99

Appendix E shows how late the servicer initiated foreclosure, finalized foreclosure, and conveyed the properties for each of the sampled loans.

Servicers missed their deadlines to initiate foreclosure for 56 of 90 loans in our sample. Regulations at 24 CFR (Code of Federal Regulations) 203.355(a) state that servicers must start foreclosure within 6 months from the date of default. Regulations at 24 CFR 203.331(b) define date of default as 60 days from the last completed mortgage payment. For these 56 loans, servicers were late initiating foreclosure by an average of 419 days, or approximately 14 months. The longest delay was on a loan that missed this deadline by 1,862 days.

Servicers missed their deadlines to finalize foreclosure and secure the properties for 68 of 90 loans in our sample. Regulations at 24 CFR 203.356(b) state that servicers must exercise reasonable diligence in prosecuting the foreclosure proceedings to completion and acquiring title to and securing the property. HUD defines reasonable diligence for each State through the issuance of mortgagee letters. Reasonable diligence varies from 3 to 30 months, depending on the State and the period covered by the various mortgagee letters. For these 68 loans, servicers were late foreclosing upon and securing the properties by an average of 523 days, or approximately 17 months. The longest delay was on a loan that missed this deadline by 1,779 days.

Servicers missed their deadlines to convey the properties to HUD for 87 of 90 loans in our sample. Regulations at 24 CFR 203.359(b) state that servicers must obtain good and marketable title and transfer the property to HUD within 30 days of securing the property. If the servicer arranges to convey the property directly to HUD, it must ensure that the property is transferred to HUD within 30 days of the reasonable diligence timeframe discussed in the previous paragraph. For these 87 loans, servicers were late conveying the properties to HUD by an average of 495 days, or approximately 17 months. The longest delay was on a loan that missed this deadline by 1,896 days.

Servicers Did Not Report Proper Self-Curtailment Dates

Servicers did not report to HUD the proper self-curtailment date to allow HUD to accurately curtail debenture interest. Regulations at 24 CFR 203.402(k) disallow a portion of debenture interest on servicers' claims if the servicer missed a deadline during the foreclosure and conveyance process. Servicers self-report, or self-curtail, to HUD if they missed a deadline and report this information in a designated section of their insurance claim form. HUD relies on the accuracy of this self-reported date, as well as other information provided on the claim, to

calculate the proper amount of debenture interest to pay. Servicers should have reported a self-curtailment date for 89 of the 90 loans in our sample, but they reported on only 49.

HUD Did Not Have Adequate Controls To Ensure Servicer Compliance

HUD did not have adequate controls to ensure that servicers complied with Federal regulations. FHA program regulations at 24 CFR Part 203 do not establish a maximum period for filing a claim, and they do not place limitations on holding costs when servicers do not meet all foreclosure and conveyance deadlines. In addition, HUD monitored only a small percentage of servicers after the claim had been paid.

Regulations at 24 CFR Part 203 Do Not Establish a Maximum Period for Filing a Claim

Program regulations allow servicers to file a claim at any time. Without regulatory authority, HUD has few options to compel servicers to convey and file a claim. Further, other major guarantors of mortgage loans have established maximum periods with recurring penalties to ensure compliance.

Program regulations establish time requirements for initiating foreclosure from the default date, securing the property from the initiation of foreclosure date, and conveying the property to HUD from the date

Regulations allow servicers to file a claim at any time.

the foreclosure was finalized and the property was secured. But they do not establish a maximum time requirement from the initiation of the process or default date to the completion or submission of a claim.

Currently, HUD has few options to compel servicers to convey and file a claim in a timely manner. Program regulations allow HUD to disallow mortgage interest when a servicer misses a foreclosure deadline, but HUD has no further recourse to protect itself from servicers that have already missed a deadline but have yet to convey. Therefore, if a servicer missed its deadline to initiate foreclosure, it had already forfeited its mortgage interest and had no further financial or regulatory incentives to meet its remaining deadlines.

Other leaders in the mortgage industry, such as the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), have established maximum periods for completing foreclosure with recurring penalties to enforce servicer compliance. Similar to FHA, Fannie and Freddie set mortgage loan servicing rules. However, unlike FHA, Fannie and Freddie charge consistent, recurring compensatory fees if the servicer exceeds its maximum period to foreclose. Fannie and Freddie continue to charge fees until the servicer has complied.

Regulations at 24 CFR Part 203 Do Not Limit Allowable Holding Costs

Program regulations do not limit holding costs when servicers do not meet all foreclosure and conveyance deadlines. During the foreclosure process, servicers continued to pay and accrue holding costs. Servicers later included these items in their claim for insurance benefits. If the servicer missed a foreclosure deadline, however, HUD treated these costs differently from mortgage interest. With one exception explained in the following paragraph, the regulations allow servicers to include holding costs in their claims for an indefinite period beyond a

servicer's missed deadline, unlike mortgage interest. As a result, servicers had less incentive to convey properties to HUD because their cost of holding and preserving the property was transferred to HUD.

Program regulations only allow servicers to claim property protection, operation, preservation, or debris removal costs if the servicer conveys within 30 days of securing the property. However, the regulations do not consider the servicer's compliance with meeting prior deadlines in allowing these costs. For example, a servicer could miss its foreclosure and reasonable diligence deadlines by 2 years, convey within 30 days of securing the property, and include these costs in its claim. Also, regulations currently allow taxes, insurance, and other foreclosure costs, which make up the bulk of holding costs, regardless of the servicers' compliance with any required deadline.

HUD Monitored Only a Small Percentage of Servicers After the Claim Had Been Paid

HUD did not monitor claims during its preclaim and claims processing functions to ensure that servicers met required deadlines. HUD monitored only a small percentage of servicers after the claim had been paid. In addition, HUD's information systems lacked automated checks to identify servicers' missed deadlines, and they required manual data entry to facilitate essential functions.

When conducting preclaim monitoring, HUD selected servicers using a ranking system that did not consider a servicer's history in meeting foreclosure deadlines. HUD's Quality Assurance Division conducted regular servicer reviews to ensure compliance with FHA program regulations. In selecting a servicer to review, the Division considered the servicer's Tier Ranking System (TRS) score. TRS scores indicate a servicer's compliance with several FHA program regulations. However, a servicer's ability to meet foreclosure and conveyance deadlines was not considered in HUD's development of TRS scores. In addition, the Quality Assurance Division selected a nonstatistical or nonrepresentative sample of loans to review during its servicer reviews. We provided the Division our sample of 90 claims to determine whether it had reviewed these claims; however, it had not reviewed any of the claims in our sample.

HUD did not monitor claims during its claims processing function to ensure that servicers met required deadlines. When a servicer submitted a claim, HUD conducted system checks to verify the accuracy of information about the servicer, FHA-insured mortgage loan, and property. But HUD did not perform system checks to determine whether servicers met their foreclosure deadlines. HUD also reviewed servicer-submitted expenses for reasonableness. For any deficiencies identified, HUD would suspend the claim and request that the servicer submit supporting documentation. During these front-end reviews, HUD reviewed loan documentation to verify the accuracy and existence of claimed expenses. But it did not verify the accuracy of claimed foreclosure dates or whether the servicer reported the proper self-curtailment date.

While HUD's postclaim reviews were adequate in identifying servicers' missed deadlines, HUD monitored only a small percentage of servicers after the claim had been paid. HUD had three staff members and a contractor to conduct postclaim servicer reviews. The three staff members had additional duties that took as much as 50 percent of their time away from conducting postclaim reviews. Since fiscal year 2014, the contractor had conducted 54 servicer reviews.

There are more than 1,800 FHA-approved servicers. HUD's participation in the Small Business Administration 8(a) program compelled HUD to take on a small contractor in a high-volume operating environment. The 8(a) program gives small businesses preference when applying for government contracts. We provided HUD our sample of 90 claims to determine whether it had conducted postclaim reviews on these claims; however, HUD had not reviewed any of the claims in our sample.

HUD's information systems lacked automated checks to identify servicers' missed deadlines. HUD's Single Family Default Monitoring System (SFDMS) tracks data on delinquent mortgages until a delinquency is cured or a claim is submitted. Servicers must electronically report the monthly status of their defaulted loans in SFDMS. However, SFDMS did not perform automated checks, nor did it throw warning flags if a servicer missed a foreclosure deadline. Servicers could report on their delayed FHA-insured loans for years without an automated notification being sent to HUD.

HUD's A43C Claims system processes single-family insurance claims. The Claims system, like SFDMS, did not perform automated checks or throw flags if a servicer missed a foreclosure deadline. It also did not compare dates reported on the claim with servicers' monthly reporting in SFDMS to identify inconsistencies. HUD expressed concern to us that its 30-year-old Claims system made it difficult to implement automatic checks. In contrast, HUD's Integrated Real Estate Management System, a multifamily system, performed automated checks of program participants' submitted financial information to identify noncompliance. For any deficiencies identified, the system threw a flag alerting HUD.

HUD's information systems required manual data entry to facilitate essential functions. The Claims system forced HUD to require servicers to submit paper documentation for its front-end reviews, supplemental claims, and postclaim reviews. Such documentation was often extensive and required significant HUD staff time to review. For example, during front-end reviews, servicers sent paper packets, sometimes exceeding 100 pages, with the servicer's handwriting marked throughout. HUD staff had to manually review the packet and the servicer's handwritten notes and manually enter adjustments into the Claims system.

The FHA Insurance Fund Was Unnecessarily Depleted by an Estimated \$2.23 Billion in Paid Claims

HUD paid an estimated \$141.9 million for servicers' claims for unreasonable and unnecessary debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated \$2.09 billion for servicers' claims for unreasonable and unnecessary holding costs that were incurred after the deadline to convey. In addition, HUD incurred post conveyance costs on properties that were not conveyed on time and could face difficulties in protecting the FHA insurance fund if servicers continue to delay their conveyances to HUD.

Table 3 below shows HUD's payments for debenture interest and holding costs.

Table 3

Claim payment type	Amount
HUD payments for debenture interest	\$141,946,340
HUD payments for holding costs	2,096,775,124
Total	2,238,721,464

HUD Paid an Estimated \$141.9 Million for Servicers' Claims for Debenture Interest

HUD paid an estimated \$141.9 million for servicers' claims for unreasonable and unnecessary debenture interest on properties that were not conveyed on time. HUD calculated the amount of debenture interest due to the servicer using the unpaid mortgage principal and the number of days it took the servicer to complete the foreclosure and conveyance processes. A shorter period would result in less debenture interest due to the servicer.

HUD Paid an Estimated \$2.09 Billion for Servicers' Claims for Holding Costs

HUD paid an estimated \$2.09 billion for servicers' claims for unreasonable and unnecessary holding costs. This figure is based on the statistical projection of the costs that occurred after the reasonable deadline to convey for the 90 loans in our sample. Table 4 summarizes the approximate number of months the servicers were late in conveying and the average amount of the costs after the deadline for the 87 loans conveyed late in our sample.

Table 4

Sample results summarized by how late the property was conveyed	Number of loans	Average holding costs after conveyance deadline
Within 6 months	26	\$ 2,864.38
After 6 months but within 12 months	19	7,899.68
After 12 months but within 18 months	7	11,694.80
After 18 months but within 24 months	11	13,163.55
After 24 months	24	17,052.50
Total	87	

In many cases, these funds were used to keep up properties that had been vacant for more than a year. As part of the conveyance process, servicers acquired 73 of the properties in our sample and allowed them to sit vacant for an average of 142 days before preparing and submitting the insurance claims to HUD. During this time and under current regulations, servicers continued to accrue holding costs, which ended up being included in their claims for insurance benefits. While it was reasonable for servicers to pay holding costs to preserve the property and complete the foreclosure process, it was unnecessary and unreasonable for HUD to pay for such costs after the date the servicer was required to convey. The claim would have been reduced if servicers

conveyed on time. While the exact amount of the reduction is unclear since certain legal and foreclosure costs are unavoidable, HUD's payment for many other periodic costs associated with preserving the property would have been avoided if the servicer had conveyed on time. This would have made additional funds available for the needs of the FHA mortgage insurance fund.

HUD Incurred Postconveyance Costs on Properties That Were Not Conveyed on Time

HUD incurred additional repair, maintenance, and selling costs on properties that were not conveyed on time. Regulations at 24 CFR 203.377 require servicers to take reasonable action to protect and preserve a vacant property. As noted above, servicers included these costs in their claims. After conveyance, HUD prepared the property to be sold. The following two examples illustrate how HUD incurred additional costs by selling properties that were not conveyed on time.

For one claim in our sample, HUD estimated more than \$5,000 in postconveyance repair costs and paid more than \$6,000 in administrative costs in addition to more than \$17,000 in holding costs that occurred after the date on which it should have conveyed the property under the regulations.



The property was vacant for 891 days before the servicer conveyed it to HUD. The servicer conveyed the property 731 days late. HUD paid more than \$140,000 to settle the servicer's unpaid mortgage loan balance and sold the property 4 months later for \$20,000.

For a different claim in our sample, HUD estimated more than \$5,000 in postconveyance repair costs and paid more than \$8,000 in administrative costs in addition to more than \$10,000 in holding costs that occurred after the date on which it should have conveyed the property under the regulations.



The property was vacant for 358 days before the servicer conveyed it to HUD. The servicer conveyed the property 1,896 days late. HUD paid more than \$62,000 to settle the servicer's unpaid mortgage loan balance and sold the property 3 months later for \$67,900.

HUD Could Face Difficulties in Protecting the FHA Insurance Fund

HUD could face difficulties in protecting the FHA insurance fund if servicers continue to delay their conveyances to HUD. In its 2015 actuarial report on the FHA insurance fund, HUD projected that it might incur losses because of servicers' delayed foreclosures and conveyances. HUD reported concern that delayed foreclosures limited its ability to identify risks to the FHA insurance fund.

Conclusion

HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time because regulations at 24 CFR Part 203 did not enable HUD to provide effective oversight and HUD monitored only a small percentage of servicers after the claim had been paid. Because it didn't have stronger controls, HUD paid an estimated \$2.23 billion in unreasonable and unnecessary costs on these claims.

Recommendations

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

- 1A. Issue a change to regulations at 24 CFR Part 203, which would avoid unnecessary costs to the FHA insurance fund, allowing an estimated \$2.23 billion to be put to better use. These changes include (1) a maximum period for filing insurance claims and (2) disallowance of expenses incurred beyond established timeframes.

We recommend that the Deputy Assistant Secretary for Finance and Budget

- 1B. Develop a strategic information technology plan to make significant operational changes to HUD's monitoring of single-family conveyance claims to ensure that servicers comply with foreclosure and conveyance timeframes.
- 1C. Develop and implement controls to identify noncompliance with current regulations at 24 CFR 203.402.

Scope and Methodology

Our audit period generally covered January 1, 2010, through July 31, 2016. We performed our audit work from April through July 2016. We conducted onsite work at HUD headquarters, 451 7th Street SW, Washington, DC, and the HUD Oklahoma field office at 301 NW 6th Street, Oklahoma City, OK.

To accomplish our objective, we

- Reviewed applicable laws and regulations;
- Reviewed HUD's policies and procedures;
- Interviewed HUD officials;
- Reviewed HUD actuarial reports and audited financial statements;
- Reviewed servicer submissions to HUD, including default status reporting, claim forms, and supporting documentation; and
- Reviewed HUD monitoring reports of servicer claims.

To achieve our objective, we relied in part on data obtained from HUD's Single Family Housing Enterprise Data Warehouse (SFHEDW) and HUD's Yardi p260 Mortgage Compliance Monitor information system (p260). SFHEDW contains information derived from SFDMS and the A43C Claims system. The p260 system tracks properties after they have been conveyed and contains data related to postconveyance repairs, inspections, appraisals, management fees, and selling activities. We performed a minimal amount of testing and found the data to be adequate for our purposes.

Using SFHEDW and p260, we identified 246,267 loans resulting in a conveyance of property to HUD between April 2010 and April 2015. We selected a statistical sample of 90 loans to represent our universe. We used p260 to obtain servicer-submitted claim forms, supporting documentation, and HUD settlement statements for each loan in our sample. We obtained monthly status reports for each loan that servicers submitted to SFHEDW. We reviewed this information to identify the date on which the servicer should have initiated foreclosure, obtained the property, and conveyed the property.

We relied on the accuracy of servicers' self-reporting. HUD grants time extensions to servicers' foreclosure deadlines for a number of reasons, including loss mitigation, bankruptcy, natural disasters, and other circumstances outside the servicers' control. We gave full credit under the regulations for any claimed extensions, whether or not servicers properly obtained HUD approval for them. We found inconsistencies in servicer reporting and relied on data from servicers' claim forms in these instances. We did not perform testing to verify the accuracy of servicer-submitted dates, costs, or loss mitigation efforts in servicers' claim forms.

We used the date on which the servicer should have conveyed the property to identify claimed expenses occurring after this date. We statistically projected our results to our universe. We projected the number of noncompliant loans in our sample to the universe and the total of HUD's

payments in our sample to the universe. See appendix D for a detailed explanation of our sample selection and results projection.

Our calculation of debenture interest was understated. We did not take into account debenture interest received by the servicer when the borrower made sporadic payments after the date of default. We gave the servicer credit during these months for interest due to it when the servicer may have been sporadically collecting payments. Therefore, servicers, in some cases, received even greater interest overpayments than shown by our calculations.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Policies and procedures to reasonably ensure that servicers comply with Federal regulations for the timely foreclosure and conveyance of properties to HUD.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- Program regulations do not establish a maximum period for filing a claim and do not limit holding costs when servicers do not meet all foreclosure and conveyance deadlines (finding).
- HUD monitored only a small percentage of servicers after the claim had been paid (finding).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$2,238,721,464
Totals	2,238,721,464

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. We determined the payments made from the FHA insurance fund for costs incurred after the deadline to convey were unreasonable and unnecessary. We determined these payments to be an estimated \$2.23 billion that would be put to better use if FHA issues a change to the regulations to prevent these unreasonable and unnecessary costs in the future.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments


OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OCT 06 2016

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA.

FROM: Robert E. Mulderig, Acting Deputy Assistant Secretary for Single Family Housing, HU *RE Mulderig*

GR George Rabil, Deputy Assistant Secretary, Office of Finance and Budget, HW *GR Rabil*

SUBJECT: Discussion Draft Report:
FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time
OIG Draft Audit Report Number: 2016-XX-XXXX
Issue Date: September 15, 2016

Thank you for providing the Office of Housing the opportunity to comment on the Office of Inspector General's (OIG) draft audit report entitled FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time (2016-XX-000X). The audit review was performed due to concerns over current regulations regarding foreclosure and conveyance timelines.

In general, the Office of Housing (Housing) agrees with OIG's concerns that long time lags in claims from servicers relative to foreclosure and conveyance of assets to HUD have been disadvantageous and costly. As identified in the report, Housing had undertaken rulemaking changes to 24 CFR 203 in 2015, but actions to move the proposed rule to final had to be suspended in light of other demands on Housing relative to Access to Credit key objectives. Housing plans to revisit rule changes for 24 CFR 203 early in FY 2017, including maximum timeframes for filing of insurance claims and disallowance of expenses incurred beyond established timeframes. Housing also concurs with the recommendation for development of a strategic technology plan to ensure that HUD has systems in place that can ensure compliance with timeframes specified to loan servicers, as well as the recommendation for better controls to identify noncompliance with 24 CFR 203.

Housing has concerns about the magnitude of financial loss attributed to the long time lags for servicer foreclosure and conveyance actions. Staff in our Office of Risk Management and Regulatory Affairs performed an independent analysis on single family claims data to evaluate the \$2.09 billion holding costs identified in the draft audit report. The Risk Office staff have indicated their concerns with the OIG's cost analysis in Attachment A. Housing requests that the OIG review these concerns and reconsider the estimated costs of untimely foreclosures and conveyances prior to issuing a final audit report. Given the uncertainty of the modeling assumptions, we urge the OIG

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Comment 1

**Ref to OIG
Evaluation**

Auditee Comments

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not to assign a particular dollar value to the estimated costs unless those costs can be definitively documented.

Housing looks forward to working with the OIG in our mutual objective to ensure that timeliness requirements for servicers relative to foreclosure and conveyance are appropriately established in regulation and enforced through systems and procedures that monitor compliance with those requirements. We hope these comments are helpful as you prepare your final report.

Ref to OIG
Evaluation

Auditee Comments

Comment 2

Comment 3

Comment 4

Comment 5

3

Attachment A

There appears to be an inconsistency in the formula on page 26. The value of the precision in the formula is .223 but is stated as .227 elsewhere in the paper. Using .227 as the precision, the formula equals 104.7 (or approximately 105), which is higher than the sample size of 90 used in the analysis. The apparent gap between the actual sample of 90 and the sample of 105 – 109 calculated from the design parameters suggests that the extrapolated results may be marginally overstated.

Internally, ORMRA use the oldest unpaid date as a basis to determine the length of delinquency. This is a rolling date that depends on the borrower making payments while in default. The table on page 28 appears to use the first time the mortgagee defaulted in the default episode, which is a static date, as the basis for determining deadlines. Generally, when determining the interest curtailment date, the date of default is used as the deadline starting point. As defined by 24 CFR 203.331 (b), "the date of default shall be considered as 30 days after:

- (1) The first uncorrected failure to perform any obligation under the mortgage; or
- (2) The first failure to make a monthly payment that subsequent payments by the mortgagor are insufficient to cover when applied to the overdue monthly payments in the order in which they became due." Using the first time the mortgagee defaulted in the default episode results in a larger number of days by which servicers missed their deadlines than if using the oldest unpaid date. Nonetheless, the frequency of missed deadlines is comparable between the use of the different dates.

OIG uses a sequential process to determine missed deadlines. "This process is sequential, so when a servicer misses a foreclosure deadline, that lateness is incorporated into the lateness of the missed conveyance deadline as well. For example, if the servicer was 140 days late to finalize foreclose of a property and 150 days late to convey it, that means the conveyance process took 10 days longer than it should have." (Page 30). While it is appropriate to use a sequential process to determine missed deadlines to initiate and complete foreclosure for the purposes of calculating the interest curtailment date, it is not appropriate to use it to determine missed deadlines to convey the property to HUD. According to 24 CFR 203.359 (b) (1), "Conveyance by the mortgagee. The mortgagee must acquire good marketable title and transfer the property to the Secretary within 30 days of the later of:

- (i) Filing for record the foreclosure deed;
- (ii) Recording date of deed in lieu of foreclosure;
- (iii) Acquiring possession of the property;"

Prior missed deadlines are not a factor in determining whether the property was conveyed within a reasonable amount of time and therefore should not be considered part of the sequential process.

The majority of the unreasonable or unnecessary costs are overpaid Part B claims attributed to holding costs that could have been avoided if the servicer had conveyed on time. There is insufficient detail in the paper describing the identity and the methodology used to quantify these excess holding costs. OIG states that they "used the date on which the servicer should have conveyed the property to identify claimed expenses occurring after this date" (Page 14). This is not an accurate method since some of those expenses that occurred after the appropriate conveyance date still could need to be incurred as part of the normal claims process.

OIG Evaluation of Auditee Comments

- Comment 1 As requested, we have reviewed and reconsidered the estimated costs identified in this report. For the reasons stated in the comments below, we believe the estimates we used in the report are appropriate.
- Comment 2 We removed the simple random sample size comparison paragraph in Appendix D from the report because it was not relevant to the stratified systematic sample used during our review. We used a precision of 0.223 throughout our calculations to arrive at the correct sample and projection of results. The removed paragraph contained “0.227” and “22.7 percent”, which were typographical errors. These figures were not part of our calculations.
- Comment 3 We applied the regulations at 24 CFR 203.331 and Handbook 4330 chapter 2-2, as stated. Default date is the first uncorrected failure to perform any obligation under the mortgage and subsequent payments shall not change the mortgagee’s failure to comply with time requirements unless such payments are sufficient to cure the default. However, we agree with HUD that the results of using either method were reasonably comparable for our sample and the purposes of the audit objective.
- Comment 4 HUD states that prior missed deadlines are not a factor in determining whether the property was conveyed within a reasonable amount of time under 24 CFR 203.359(b)(1). We are aware of this (see page 7, last paragraph) and state in the report that current regulations are a primary cause for the report condition. We believe it is not productive or reasonable for HUD, the mortgage industry, or the public to allow servicers to delay finalizing foreclosure without any time limitation. The effect of this report states that while it may not have been ineligible under current regulations, it was not reasonable or necessary for servicers to submit and be reimbursed for costs incurred after the reasonable conveyance deadline.
- Comment 5 We agree that some of the expenses that occurred after the appropriate conveyance date are expenses that would have needed to be incurred as part of a normal claims process. However, there is no way to determine after the fact how much, if any, of those expenses would have been incurred if the lender had met the deadline. In addition, periodic costs that increase as time passes, such as taxes and insurance, make up a significant percentage of the expenses incurred after conveyance deadlines for our sample. We gave the servicer full credit for periodic costs whenever the begin date of services rendered occurred before the reasonable conveyance date regardless of the end date. Given this, and our opinion that it is not reasonable or necessary for servicers to submit and be reimbursed for all costs incurred after the reasonable conveyance deadline, we believe the methods we used during our review resulted in the most reasonable estimate of the financial impact on the insurance fund. See the scope and methodology section and appendix D for more information on our methodology.

Appendix C

Criteria

Excerpts From 24 CFR Part 203

§ 203.331 Definition of default, date of default, and requirement of notice of default to HUD.

(a) Default. If the mortgagor [borrower] fails to make any payment or to perform any other obligation under the mortgage, and such failure continues for a period of 30 days, the mortgage shall be considered in default for the purposes of this subpart.

(b) Date of default. For the purposes of this subpart, the date of default shall be considered as 30 days after:

- (1) The first uncorrected failure to perform any obligation under the mortgage; or
- (2) The first failure to make a monthly payment that subsequent payments by the mortgagor are insufficient to cover when applied to the overdue monthly payments in the order in which they became due.

(c) Notice of default. Once each month, on a day prescribed by HUD, the mortgagee [lender] shall report to HUD all mortgages that were in default on the last day of the month, or that were reported as in default the previous month. The report shall be made in a manner prescribed by HUD.

(d) Number of days in month. For the purposes of this section, each month shall be considered to have 30 days.

§ 203.355 Acquisition of property.

(a) In general. Upon default of a mortgage, except as provided in paragraphs (b) through (i) of this section, the mortgagee shall take one of the following actions within nine months from the date of default, or within any additional time approved by the [HUD] Secretary or authorized by §§ 203.345 or 203.346. For mortgages where the date of default is on or after February 1, 1998, the mortgagee shall take one or a combination of the following actions within six months of the date of default or within such additional time approved by HUD or authorized by §§ 203.345 or 203.346:

- (1) Obtain a deed-in-lieu of foreclosure;
- (2) Commence foreclosure;

(b) Vacant or abandoned property. With respect to defaulted mortgages on vacant or abandoned property, if the mortgagee discovers, or should have discovered, that the property is vacant or abandoned, the mortgagee must commence foreclosure within the later of 120 days after the date the property became vacant, or 60 days after the date the

property is discovered, or should have been discovered, to be vacant or abandoned; but no later than the number of months from the date of default as provided in paragraph (a) of this section. The mortgagee must not delay foreclosure on vacant or abandoned property because of the requirements of § 203.606.

§ 203.356 Notice of foreclosure and preforeclosure sale; reasonable diligence requirements.

(b) Reasonable diligence. The mortgagee must exercise reasonable diligence in prosecuting the foreclosure proceedings to completion and in acquiring title to and possession of the property. A time frame that is determined by the Secretary to constitute “reasonable diligence” for each State is made available to mortgagees.

§ 203.359 Time of conveyance to the Secretary.

(b) For mortgages insured under firm commitments issued on or after November 19, 1992, or under direct endorsement processing where the credit worksheet was signed by the mortgagee’s underwriter on or after November 19, 1992 -

(1) Conveyance by the mortgagee. The mortgagee must acquire good marketable title and transfer the property to the Secretary within 30 days of the later of:

- (i) Filing for record the foreclosure deed;
- (ii) Recording date of deed in lieu of foreclosure;
- (iii) Acquiring possession of the property;

§ 203.402 Items included in payment – conveyed and non-conveyed properties.

The insurance benefits paid in connection with foreclosed properties, whether or not conveyed to the The Secretary; and those properties conveyed to the Commissioner as a result of a deed in lieu of foreclosure; and those properties sold under an approved preforeclosure sale shall include the following items:

- (a) Taxes, ground rents, water rates, and utility charges that are liens prior to the mortgage.
- (b) Special assessments, which are noted on the application for insurance or which become liens after the insurance of the mortgage.
- (c) Hazard insurance premiums on the mortgaged property not in excess of a reasonable rate as defined in § 203.379(a)(4).
- (d) Periodic MIP or open-end insurance charges;
- (e) Taxes imposed upon any deeds or other instruments by which said property was acquired by the mortgagee and transferred or conveyed to the Commissioner, or was acquired by the mortgagee and retained pursuant to § 203.368;

(f) Foreclosure costs or costs of acquiring the property otherwise (including costs of acquiring the property by the mortgagee and of conveying and evidencing title to the property to HUD, but not including any costs borne by the mortgagee to correct title defects) actually paid by the mortgagee and approved by HUD, in an amount not in excess of two-thirds of such costs or \$75, whichever is the greater. For mortgages insured on or after February 1, 1998, the Secretary will reimburse a percentage of foreclosure costs or costs of acquiring the property, which percentage shall be determined in accordance with such conditions as the Secretary shall prescribe. Where the foreclosure involves a mortgage sold by the Secretary on or after August 1, 1969, or a mortgage executed in connection with the sale of property by the Secretary on or after such date, the mortgagee shall be reimbursed (in addition to the amount determined under the foregoing) for any extra costs incurred in the foreclosure as a result of a defect in the mortgage instrument, or a defect in the mortgage transaction or a defect in title which existed at or prior to the time the mortgage (or its assignment by the Secretary) was filed for record, if the mortgagee establishes to the satisfaction of the Commissioner that such extra costs are over and above those customarily incurred in the area.

(g)

(1) For mortgages insured under firm commitments issued before November 19, 1992, or under direct endorsement processing where the credit worksheet was signed by the mortgagee's underwriter before November 19, 1992, reasonable payments made by the mortgagee, with the approval of the Secretary, for the purpose of protecting, operating, or preserving the property, or removing debris from the property.

(2) For mortgages insured under firm commitments issued on or after November 19, 1992, or under direct endorsement processing where the credit worksheet was signed by the mortgagee's underwriter on or after November 19, 1992, reasonable payments made by the mortgagee, with the approval of the Secretary, for the purpose of protecting, operating, or preserving the property, or removing debris from the property prior to the time of conveyance required by § 203.359.

(k)

(1) Except as provided in paragraphs (k)(1)(i) and (ii) of this section, for properties conveyed to the Secretary and endorsed for insurance on or before January 23, 2004, an amount equivalent to the debenture interest that would have been earned, as of the date such payment is made, on the portion of the insurance benefits paid in cash, if such portion had been paid in debentures, and for properties conveyed to the Secretary and endorsed for insurance after January 23, 2004, debenture interest at the rate specified in § 203.405(b) from the date specified in § 203.410, as applicable, to the date of claim payment, on the portion of the insurance benefits paid in cash.

(i) When the mortgagee fails to meet any one of the applicable requirements of §§ 203.355, 203.356(b), 203.359, 203.360, 203.365, 203.606(b)(1), or 203.366 within

the specified time and in a manner satisfactory to the Secretary (or within such further time as the Secretary may approve in writing), the interest allowance in such cash payment shall be computed only to the date on which the particular required action should have been taken or to which it was extended;

(ii) When the mortgagee fails to meet the requirements of § 203.356(a) within the specified time and in a manner satisfactory to the Secretary (or within such further time as the Secretary may specify in writing), the interest allowance in such cash payment shall be computed to a date set administratively by the Secretary.

Appendix D

Sampling and Projections

FHA Loans – Delayed Conveyance – Universe and Sampling

Scope of Review

When FHA-insured mortgages go into default and the lender submits a claim to HUD, generally, a claim is paid to the lender, and the property is conveyed via a transfer of title (or ownership) to HUD. In some instances, the conveyance of the property to HUD is delayed. The purpose of the statistical sampling in this review is to determine the number of loans in the universe confirmed as a delayed conveyance and estimate the total dollars paid in ineligible holding costs from HUD to lenders as a result of the delay.

Audit Universe

The audit universe consists of 246,267 loans that meet the following criteria that have an FHA claim record populated in the P-260 Lender Portal System:

1. HUD acquired title to the property between April 2010 and April 2015.
2. OIG computed a delayed conveyance calculation of at least 3 months.
3. The cumulative holding cost claim amount paid was at least \$5,000.
4. Loans that were a part of the Bank of America auction agreement were excluded.

Sample Frame

The audit universe.

Sampling Unit

Properties individually conveyed to HUD identified by FHA case number.

Sampling Unit Valuation

The total dollar amount of holding costs paid to the lender from HUD for each record identified by the sampling unit.

Sample Selection Method

Sample design: stratified systematic sample - A stratified systematic sample of 90 records was identified for review among the audit universe. A systematic approach was used to help control for potential differences that may occur across sampling units by both State and different monthly conveyance timeframes.

Taken in rank order by the size of the total holding costs amount, the strata were designed to encompass the following ranges by percentile: 0-20, 20-40, 40-60, 60-80, 80-90, 90-95, and 95-100th. After strata boundaries were determined, the data were sorted by State and then by the monthly count of the timeframe from claim to conveyance 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. The table below lists the strata boundaries and other key data related to this sample design.

Strata	Form B amount	Universe count	Sample count	Probability of selection	Sampling weight
0-20pct	> 0	49,245	18	0.0004	2735.83
20-40pct	≥ \$8746	49,253	18	0.0004	2736.28
40-60pct	≥ \$11492	49,260	18	0.0004	2736.67
60-80pct	≥ \$14766	49,251	18	0.0004	2736.17
80-90pct	≥ \$19832	24,634	9	0.0004	2737.11
90-95pct	≥ \$24878	12,310	4	0.0003	3077.50
95-100pct	≥ \$30198	12,314	5	0.0004	2462.80
Total	N/A	246,267	90	N/A	N/A

Sample size calculations: We found a sample size of 90 to be the best size for providing meaningful audit results. With the frequent occurrence of null values in reviews, possible findings follow a lognormal distribution, which approximates a bell curve. Given this feature of the data, we modeled the actual levels of accuracy achieved at different levels of error and observed the sample sizes, which yielded an accuracy better than or equal to a one-sided 95 percent confidence interval without unnecessary risk of a spurious error in our projections. To perform this modeling, we used replicated sampling to proof-test the sample design and model the true sampling distribution, thereby confirming that traditional statistical formulas achieve the expected results.

To model the behavior and accuracy of possible audit findings, we used the universe of 246,267 FHA case numbers. We modeled circumstances in which the likelihood of error ranged from 15 through 90 percent with 15 percent interval steps, the error amounts being a randomized portion between 50 and 100 percent of the holding costs paid to the lender by HUD. After modeling using our computer-replicated simulations in SAS®, we determined that a stratified sample size of 90 consistently yielded accurate results and confidence intervals. In some audit universes, as the error rate approaches high levels (as in this case, upward to 90 percent), the lognormal tendency of sampling distributions can be pronounced enough that a slightly increased t-score can be required to meet the specified confidence interval. In this case, the review results dictate whether we will have to increase the t-score used in projecting results to meet the stated one-sided confidence interval of 95 percent. This adjustment will be addressed after the review results have been studied and if necessary, will be made in calculating the projections.

Findings:

Based on a stratified systematic sample of 90 loan records designed to minimize error, we can say the following statements:

Dollar Projection Results Part A:

We found that in 25 out of 90 loan records reviewed, HUD unreasonably and unnecessarily overpaid Part A interest. This amounts to a weighted average of \$1,116.72 per loan. Deducting the statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent– that this amounts

to at least \$576.39 in Part A interest overpayments per loan, and it could be more. In the context of the total universe of 246,267 loan records, this amounts to a total loss to HUD in Part A interest overpayments of at least \$141.9 million, and it could be more.

Dollar Projection Results Part B:

We found that in 85 out of 90 loan records reviewed, HUD unreasonably and unnecessarily overpaid Part B claims. This amounts to a weighted average of \$9,545.96 per loan. Deducting the statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent– that this amounts to at least \$8,514.24 in Part B overpayments per loan, and it could be more. In the context of the total universe of 246,267 loan records, this amounts to a total loss to HUD in Part B overpayments of at least \$2.096 billion, and it could be more.

Missed a Foreclosure Deadline, a Conveyance Deadline, or Both:

We found that in 89 out of 90 loan records reviewed, servicers missed a foreclosure deadline, a conveyance deadline, or both. This amounts to a weighted average of 98.8 percent of the loans. Deducting the statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent– that this amounts to at least 97.0 percent of the loans in the universe met this criteria. Extending this percent to the total universe count of 246,267 loan records we can say, a servicer either missed a foreclosure deadline, a conveyance deadline, or both on at least 238,978 loans, and it could be more.

Percent/Count Projection Results Part A:

We found that in 25 out of 90 loan records reviewed, HUD unreasonably and unnecessarily overpaid Part A interest. This amounts to a weighted average of 27.9 percent of the loans. Deducting the statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent– that this amounts to at least 20.1 percent of the loans in the universe have this same characteristic. Extending this percent to the total universe count of 246,267 loan records we can say, HUD unreasonably and unnecessarily overpaid Part A interest on at least 49,532 loans, and it could be more.

Percent/Count Projection Results Part B:

We found that in 85 out of 90 loan records reviewed, HUD unreasonably and unnecessarily overpaid Part B claims. This amounts to a weighted average of 94.4 percent of the loans. Deducting the statistical margin of error to accommodate for the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent– that this amounts to at least 90.4 percent of the loans in the universe have this same characteristic. Extending this percent to the total universe count of 246,267 loan records we can say, HUD unreasonably and unnecessarily overpaid Part B claims on at least 222,652 loans, and it could be more.

Appendix E

Missed Deadlines

For each loan reviewed in our sample, the following table shows the number of days by which servicers missed their deadlines to initiate foreclosure, finalize foreclosure and secure the properties, and convey the properties to HUD.

Case Number	Days late to initiate foreclosure	Days late to complete foreclosure	Days late to convey property
011-6635466	584	600	700
022-1855978	0	0	93
022-1920493	0	116	307
023-2854902	1061	1044	1042
031-2313880	1862	1779	1896
045-6486640	554	478	478
052-3053287	0	0	0
052-4279802	1102	988	1033
052-5053664	0	0	11
052-5264340	993	844	849
061-3533037	0	806	882
071-0984303	0	596	657
093-5921741	5	478	701
093-5983411	0	763	731
095-0671914	80	1112	1345
095-0824712	0	128	158
105-0754493	193	180	315
105-1472137	826	754	749
105-2405326	430	354	383
105-2440357	69	85	105
105-3358540	22	0	3
105-3579848	618	574	557
105-5117320	161	0	324
132-1478976	0	183	384
132-1661704	20	106	104
137-2046251	92	37	200
137-3609714	0	714	710
137-3623404	196	754	752
137-4171584	22	9	11
137-5219943	0	545	523
151-6624311	1808	1666	1669

Case Number	Days late to initiate foreclosure	Days late to complete foreclosure	Days late to convey property
151-8262614	0	152	304
181-2039418	0	277	274
181-2060853	102	912	870
201-3490739	0	0	325
201-4290575	183	355	354
221-3355292	83	149	211
241-7332560	554	787	768
251-3208785	399	309	5
261-8030525	11	0	0
261-8874989	0	68	78
261-8912775	216	0	183
262-1505614	10	0	106
263-4056024	396	519	626
263-4349019	0	0	340
263-4402059	0	126	394
271-9186554	0	0	987
271-9294551	203	0	272
292-4897461	47	0	5
292-5423222	207	144	142
292-5500983	247	95	343
321-2475043	0	0	131
331-1136928	32	28	5
332-4489323	0	0	643
351-3581829	125	577	574
381-5129263	0	0	12
381-8857043	203	796	792
387-0125716	559	789	790
387-0552931	0	245	257
411-3862723	794	1163	1140
412-4320775	731	704	712
412-5920827	0	0	178
413-4658079	512	546	565
413-5217728	0	0	47
421-3979411	0	856	851
422-2659258	0	0	217
441-5840528	0	1140	1143
441-7874156	129	866	1237
461-3972453	926	1611	1608
481-3387699	0	74	71

Case Number	Days late to initiate foreclosure	Days late to complete foreclosure	Days late to convey property
483-3678513	1286	1463	1426
483-4113292	147	109	107
491-7936974	0	0	51
491-7967023	126	62	61
491-8650169	0	105	147
492-7949629	423	383	382
492-8145083	132	0	77
495-7108299	1046	1005	1005
495-7253384	316	164	293
495-7708271	473	416	406
501-6820098	0	293	659
501-7536091	536	662	920
541-7808291	11	0	0
541-8020204	425	316	337
541-8243770	263	79	112
561-8979743	815	774	1042
581-2411096	85	172	299
581-2532993	0	304	325
581-2594004	0	138	130
581-3235147	0	143	176
Loans that missed the deadline	56	68	87
Average days late for those loans that missed the deadline	419	523	496

These values identify the servicer's lateness at three points in time during the foreclosure and conveyance process. This process is sequential, so when a servicer misses a foreclosure deadline, that lateness is incorporated into the lateness of the missed conveyance deadline as well. For example, if the servicer was 140 days late to finalize foreclosure of a property and 150 days late to convey it, that means the conveyance process took 10 days longer than it should have.