Issue Date
November 14, 2011
Audit Report Number
2012-PH-1002

TO: Myron P. Newry, Director, Fair Housing Initiatives Program Division, Office of Fair Housing and Equal Opportunity, EDPH

//signed//

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

SUBJECT: The National Community Reinvestment Coalition, Washington, DC, Did Not Comply With Conflict-of-Interest Provisions in Its Fair Housing Initiative Program Agreement With HUD

HIGHLIGHTS

What We Audited and Why

We audited the National Community Reinvestment Coalition's (grantee) compliance with provisions in its Fair Housing Initiatives Program grant agreement with the U. S. Department of Housing and Urban Development (HUD). The audit was conducted based on a congressional request, which raised questions regarding the grantee's compliance with conflict-of-interest provisions in its grant agreement with HUD. Our objective was to determine whether the grantee complied with the terms and provisions of the grant agreement and HUD requirements.

What We Found

The grantee improperly accepted approximately $2.4 million in donations from 10 of 38 organizations (lenders) it tested[1] under its grant within a year of the grant

[1] In 3 of the 10 cases, the donations were provided by the nonprofit arm (foundation) of the lender. However, we refer to these foundations as lenders because the grantee's testing of the related lenders within 1 year of accepting donations from the foundations created apparent conflicts of interest that violate provisions in the grant agreement.

testing period, thereby creating conflict-of-interest situations in violation of the grant agreement. The grantee generally completed administrative and program activities and tasks in accordance with its agreement; however, because it improperly accepted donations from lenders it tested, thereby creating conflict-of-interest situations, $59,800 of $230,000 in grant funds (26 percent) it spent was ineligible. Further, the grantee did not have procedures to verify the criminal records of individuals it hired to test lenders. As a result and contrary to requirements, it may potentially use testers with felony convictions or criminal records to perform program-funded activities.

What We Recommend

We recommend that the Director of the Fair Housing Initiatives Program require the grantee to repay $59,800 in ineligible program grant funds expended and develop and implement controls to detect and avoid conflict-of-interest situations related to its administration of the program to prevent $338,483 in program funds from being used to test lenders with which it has conflicts-of-interest. The grantee should also implement procedures to verify and document that its testers are free from felony convictions and criminal records.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with the grantee during the audit and at an exit conference on October 5, 2011. The grantee provided written comments to the draft report on October 21, 2011. The grantee generally disagreed with the audit findings. The complete text of the grantee's response, along with our evaluation of the response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development's (HUD) Fair Housing Initiatives Program grant funds are competitively awarded to eligible organizations. Fair housing organizations and other nonprofits that receive funding through the program assist people who believe they have been victims of housing discrimination. Program organizations partner with HUD to help people identify government agencies that handle complaints of housing discrimination. They also conduct preliminary investigations of claims, including sending "testers" to properties suspected of practicing housing discrimination. Testers are minorities and whites with the same financial qualifications who evaluate whether housing providers treat equally qualified people differently. The type of funding provided can include the Education and Outreach Initiative (EOI) grant, which is for initiatives that explain to the general public and housing providers what equal opportunity in housing means and what housing providers need to do to comply with the Fair Housing Act. There is also the Private Enforcement Initiative (PEI) grant, which provides funds to nonprofit fair housing organizations to carry out testing and enforcement activities to prevent or eliminate discriminatory housing practices.

The National Community Reinvestment Coalition (grantee) is a nonprofit organization that was incorporated in 1990 in Washington, DC. The purpose of the organization is to promote greater access to credit by low-income, minority communities. The grantee is a national association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. The grantee is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code, and its sources of funding include contributions, grants, and Federal awards. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Since 2007, the grantee has received the following program grants:

Fiscal year	Type of funding	Amount of grant
2007	EOI	$ 100,000
2007	PEI	199,848
2008	PEI	230,000
2010	EOI	232,707
2010	PEI	315,256
2010	PEI	486,601
2010	PEI	500,000
Total		**$2,064,412**

HUD has disbursed all of the funds related to the 2007 and 2008 program grants. Funds for the fiscal year 2010 grants were awarded in April 2011. We reviewed the grantee's compliance with program grant terms and provisions and its use of funds for its most recently completed grant period. The funds were from the 2008 PEI grant in the amount of $230,000. HUD awarded the grant in December 2008. The grant agreement was effective on December 9, 2008, and the period of performance was initially from February 1, 2009, through January 31, 2010. On

August 1, 2009, the period of performance was changed to August 1, 2009, through July 31, 2010. The grantee submitted a final report to HUD in October 2010.

Our objective was to determine whether the grantee complied with the terms and provisions of the grant agreement and HUD requirements.

RESULTS OF AUDIT

Finding: The Grantee Did Not Comply With Conflict-of-Interest Provisions in Its Agreement With HUD

Contrary to the grant agreement, the grantee accepted approximately $2.4 million in donations from 10 of 38 lenders it tested under its grant within a year of the grant testing period. The grantee generally completed administrative and program activities and tasks in accordance with its grant agreement. However, because it lacked written policies or procedures to ensure its compliance with conflict-of-interest provisions in its grant agreement, it improperly accepted donations from lenders it tested, thereby creating inappropriate conflict-of-interest situations. As a result $59,800 of $230,000 (26 percent) in grant funds it spent was ineligible. Further, the grantee did not have procedures to verify the criminal records of individuals it hired to test lenders and may potentially use testers with felony convictions or criminal records to perform program-funded activities. The grantee should develop and implement controls to detect and avoid conflict-of-interest situations related to its administration of the program to prevent $338,483 in program funds from being used to test lenders with which it has conflicts of interest. The grantee should also implement procedures to verify and document that its testers are free from felony convictions and criminal records.

The Grantee Improperly Accepted About $2.4 Million in Donations

The grantee violated conflict-of-interest provisions in its agreement because it improperly accepted approximately $2.4 million in donations from 10 of 38 lenders it tested. In 3 of the 10 cases, the grantee solicited the donations from the lenders. Attachment B of the agreement required the grantee to certify that it would not solicit funds from or seek to provide fair housing, educational or other services or products for compensation, directly or indirectly, to any person or organization which had been the subject of program-funded testing by the grantee in the 12 months following the testing. Also, the agreement included an economic interests provision which stated the following:

> "Grantee agrees that it and testers will not have an economic interest in the outcome of any test, directly or indirectly, without prejudice to the right of any person or entity to recover damages for any cognizable injury. The Grantee nor any of its personnel, testers and the organizations conducting tests, when different from the Grantee, may not (1) be a relative by adoption, blood, or marriage of any party in a case, (2) have had any

employment or other affiliation, within one year before or after the test, with the person or organization to be tested…"

In addition, the agreement required the grantee to certify to additional assurances including compliance with regulations at 24 CFR (Code of Federal Regulations) 84.42 which prohibits participation in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Although the economic interests provision and the CFR requirements were not specifically incorporated into the conflict-of-interest provision, they are related to conflicts of interest because they require a separation of interests between the tester and the entities tested.

The grant provisions and CFR requirements prohibited the grantee from soliciting funds from lenders it had tested within a year after the testing; provided that the grantee would not have any affiliation with lenders it tested within 1 year before or after the test; and prohibited real or apparent conflicts of interest. The grantee violated the requirements above because it solicited and/or accepted more than $2.4 million in donations between 2009 and 2010 from 10 of 38 lenders it tested within a year of the testing. The lenders were tested between January and July of 2010. In 3 of the 10 cases, the donations were provided by the nonprofit arm of the lender. [2] The lenders generally provided the donations for the grantee's annual conferences and housing counseling grants. The lenders included Citibank, JP Morgan Chase, Wells Fargo, HSBC, Regions Bank, PNC, BB&T, Bank of America Foundation, Wachovia Foundation, and SunTrust Foundation. We requested the grantee's correspondence files for the 10 lenders, and the grantee provided us some correspondence for 3 of the lenders (Regions Bank, PNC, and BB&T). Our review of the correspondence and other records disclosed that the grantee solicited donations from the lenders. The schedule below shows the donations the grantee accepted from the 10 lenders between 2009 and 2010. The lenders were tested between January and July of 2010.

Lender or nonprofit arm	**Donation**
Citibank	$ 755,000
Bank of America Foundation	450,000
JP Morgan Chase	400,000
Wells Fargo	400,000
Wachovia Foundation	125,000
HSBC	100,000
Regions Bank	100,000
SunTrust Foundation	60,000
PNC	50,000
BB&T	20,000
Total	**$2,460,000**

[2] See footnote 1.

The grantee's improper acceptance of donations from the lenders above created conflict-of-interest situations or apparent conflicts of interest in the case of the nonprofit arms. Since the clear intent of the grant agreement conflict-of-interest provisions was to protect the integrity of the testing by requiring an arm's length relationship between the grantee and the lenders it tests, its violation of the provisions calls into question the independence of its testing. The grantee failed to identify and prevent its violation of the conflict-of-interest provisions because it had no written policies or procedures to ensure its compliance with the provisions. During the audit, the grantee stated that it had a policy in place to address conflict-of-interest concerns and described its policies, but said that the policies were not in writing. Nevertheless, its policies clearly did not prevent the issues we identified. The grantee needs to implement policies and procedures to ensure that it detects and prevents conflict-of-interest situations related to its administration of program grants.

The Grantee Generally Met Administrative and Program Requirements but Incurred $59,800 in Ineligible Costs

The grantee generally met the administrative and program activities and tasks stipulated by the grant agreement and maintained adequate support for its program expenses. In accordance with the agreement, the grantee completed key tasks and activities including assigning key staff to administer the grant, drafting and submitting a job description for a program coordinator, preparing and submitting its procedures for analyzing regional housing markets, hiring and training testers, and performing audit or complaint-based tests in specific locations. The grantee also submitted a final report to HUD as required. The grantee's records indicated that it incurred about $245,500 in program costs from August 2009 to November 2010 as follows:

Salaries and fringe benefits	$142,602
Overhead expenses	46,583
Program expenses	43,734
Miscellaneous expenses	12,636
Total	**$245,555**

The overhead expenses were a negotiated provisional amount. Program expenses included costs related to the training of testers and payments made to testers for testing activities. Miscellaneous expenses included costs for telephone, travel, printing, and consulting. We reviewed the entire amount of the salary and fringe benefit costs and about $3,475 in program expenses and found that the expenditures were adequately supported. Although the grantee generally completed administrative and program activities and tasks in accordance with its grant agreement, $59,800 of $230,000 (26 percent) in grant funds it spent was

ineligible because it improperly accepted donations from 26 percent (10 of 38) of the lenders it tested. As stated above, the grantee needs to implement policies and procedures to ensure its compliance with conflict-of-interest provisions. By doing so the grantee will prevent approximately $338,500[3] in program funds from being used to test lenders with which it has conflicts of interest.

The Grantee Did Not Verify Testers' Criminal Records

HUD regulations state that testers must not have prior felony convictions or convictions of crimes involving fraud or perjury. However, the grantee did not verify its testers' criminal records. We reviewed files for 18 of 113 testers the grantee trained and found that it did not have adequate documentation to show that the testers did not have criminal records. Grantee staff said that prospective testers completed a job application form on which they were asked whether they had a criminal record and that the question was also asked during the interview and training process. However, the grantee did not take other steps to verify the applicants' responses. We noted that the testers answered the question in all but 1 of the 18 cases reviewed. We checked the criminal records of the 18 testers and found no evidence of felony or fraud- or perjury-related convictions. Although we did not find evidence of inappropriate criminal backgrounds in relation to the testers, the grantee needs to verify testers' records so that it has reasonable assurance that they are suitable for their job function. Grantee staff said that taking steps to verify its testers' criminal records would result in additional program costs. Nevertheless, it is important for the grantee to implement verification procedures to ensure that its testers are free of felony or fraud- or perjury-related convictions.

HUD Monitored the Grantee

HUD monitored the grantee; however, the monitoring reviews appeared to be based on the administrative and program activities and tasks associated with the grant agreement. We did not find any evidence that the monitoring included reviews of donations to the grantee for potential conflicts of interest, individuals or entities hired to perform program testing/investigations or the sufficiency of the grantee's tester background check policies. The grantee submitted quarterly reports for HUD's review. HUD also performed one onsite monitoring review and did not identify or report any findings. In light of our audit findings, HUD's future monitoring of the grantee should include monitoring procedures to

[3] This amount represents 26 percent of $1,301,857 in fiscal year 2010 PEI grant funds awarded to the grantee in April 2011.

determine the grantee's compliance with conflict-of-interest provisions and program regulations regarding testers' suitability.

Conclusion

The grantee did not comply with conflict-of-interest provisions in its grant agreement because it improperly accepted donations from 26 percent of the lenders it tested. As a result, although it generally completed administrative and program activities and tasks in accordance with its grant agreement, $59,800, or 26 percent, of $230,000 in grant funds it spent was ineligible. The grantee also did not verify the criminal records of its testers. It needs to begin verifying prospective testers' records to ensure that it does not hire unsuitable testers to perform program-funded activities. Finally, in accordance with the performance sanctions clause in the grant agreement, which provides that the grantee's failure to comply with grant terms and conditions will make it liable for sanctions including but not limited to repayment of improperly used funds, the grantee should repay $59,800 in grant funds associated with its testing of lenders from which it improperly accepted donations. The grantee should also implement policies and procedures to ensure that it detects and prevents conflict-of-interest situations related to its administration of program grants to prevent approximately $338,500 in program funds from being used for ineligible purposes.

Recommendations

We recommend that the Director of the Fair Housing Initiatives Program Division, Office of Fair Housing and Equal Opportunity, require the grantee to

1A. Repay $59,800 in grant funds it spent to test lenders from which it improperly accepted donations.

1B. Develop and implement controls to detect and prevent conflict-of-interest situations related to its administration of the program to prevent $338,483 in program funds from being used to test lenders with which the grantee has conflicts of interest.

1C. Develop and implement controls to verify and document that its testers are free from felony convictions and criminal records involving fraud or perjury.

We also recommend that the Director of the Fair Housing Initiatives Program

1D. Implement monitoring procedures to determine the grantee's compliance with conflict-of-interest provisions and program regulations regarding testers' suitability.

SCOPE AND METHODOLOGY

We conducted the audit from February through September 2011 at the grantee's office located at 727 15th Street, NW, Washington, DC, and our office located in Philadelphia, PA. The audit covered the period September 2007 through December 2010 but was expanded when necessary to include other periods. We relied in part on computer-processed data in the grantee's computer system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes. The testing entailed verification of 18 expenses from the grantee's computer-generated listing of expense transactions.

To accomplish our objective, we reviewed

- Relevant background information.
- Applicable HUD rules, regulations, and guidance.
- The grant agreements between HUD and the grantee.
- Correspondence prepared by HUD, the grantee, and other related parties providing donations to the grantee.
- The grantee's organization chart, employee listing, and personnel policies and procedures.
- The grantee's quarterly reports.
- HUD monitoring reports.
- The grantee's listing of lenders tested.
- The grantee's listing of donations provided by various organizations from 2007 to 2010.
- The grantee's listing of testers.
- Written policies and procedures for the testing of lenders.
- The grantee's audited financial statements for the periods ending December 31, 2008, and 2009.

We obtained a legal opinion from the Office of Inspector General's (OIG) Office of General Counsel regarding the grantee's noncompliance with conflict-of-interest provisions in its grant agreement. Counsel opined that the grantee engaged in conflicts of interest by accepting donations from lenders it tested within a year of the testing and similarly allowed apparent conflicts of interest to exist by accepting donations from the nonprofit arms of lenders it tested.

We reviewed records related to the three program grants the grantee received in 2007 and 2008 and conducted a detailed review of the $230,000 program grant it received in 2008. The detailed review included the entire amount ($142,602) of the grantee's salary and fringe benefit expenditures allocated to the grant and about $3,475 in nonstatistically selected program expenses. The review was to determine whether the costs were eligible and properly supported. We also nonstatistically selected 18 of the grantee's 113 testers by picking each fifth tester on its listing and reviewed related files to determine whether the testers were trained and how the grantee determined whether they had criminal records. In addition, we performed LexisNexis database searches to research the testers' criminal records. The LexisNexis database is an online resource that provides information on legal and public records. We also nonstatistically selected and reviewed a random sample of 21 of 105 test cases the grantee conducted to determine whether it had adequate documentation to show that the tests were conducted.

We determined the ineligible costs by taking 26 percent of the grant amount ($230,000) because most of the expenses charged to the grant were administrative or indirect (i.e. salaries, overhead, phone, printing, consulting etc.). The 26 percent reflects the percentage of the lenders from which the grantee improperly accepted donations. In that regard, we also determined the funds to be put to better use by calculating 26 percent of $1,301,857 in fiscal year 2010 PEI grant funds that were awarded to the grantee in April 2011.

We interviewed grantee staff and officials from HUD's Office of Fair Housing and Equal Opportunity in the Washington, DC, field office, Philadelphia Regional Office, and HUD headquarters.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies, procedures, and other management controls implemented to ensure that the grantee complied with grant agreement terms and administered its program in accordance with HUD rules and regulations.

We assessed the relevant control identified above.

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

Significant Deficiency

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

- The grantee lacked adequate policies and procedures to ensure its compliance with conflict-of-interest provisions in its grant agreement.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$59,800	
1B		$338,483

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ 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. In this instance, if the grantee implements our recommendation, it will prevent approximately $338,483 in program funds from being used to test lenders with which the grantee has conflicts of interest.

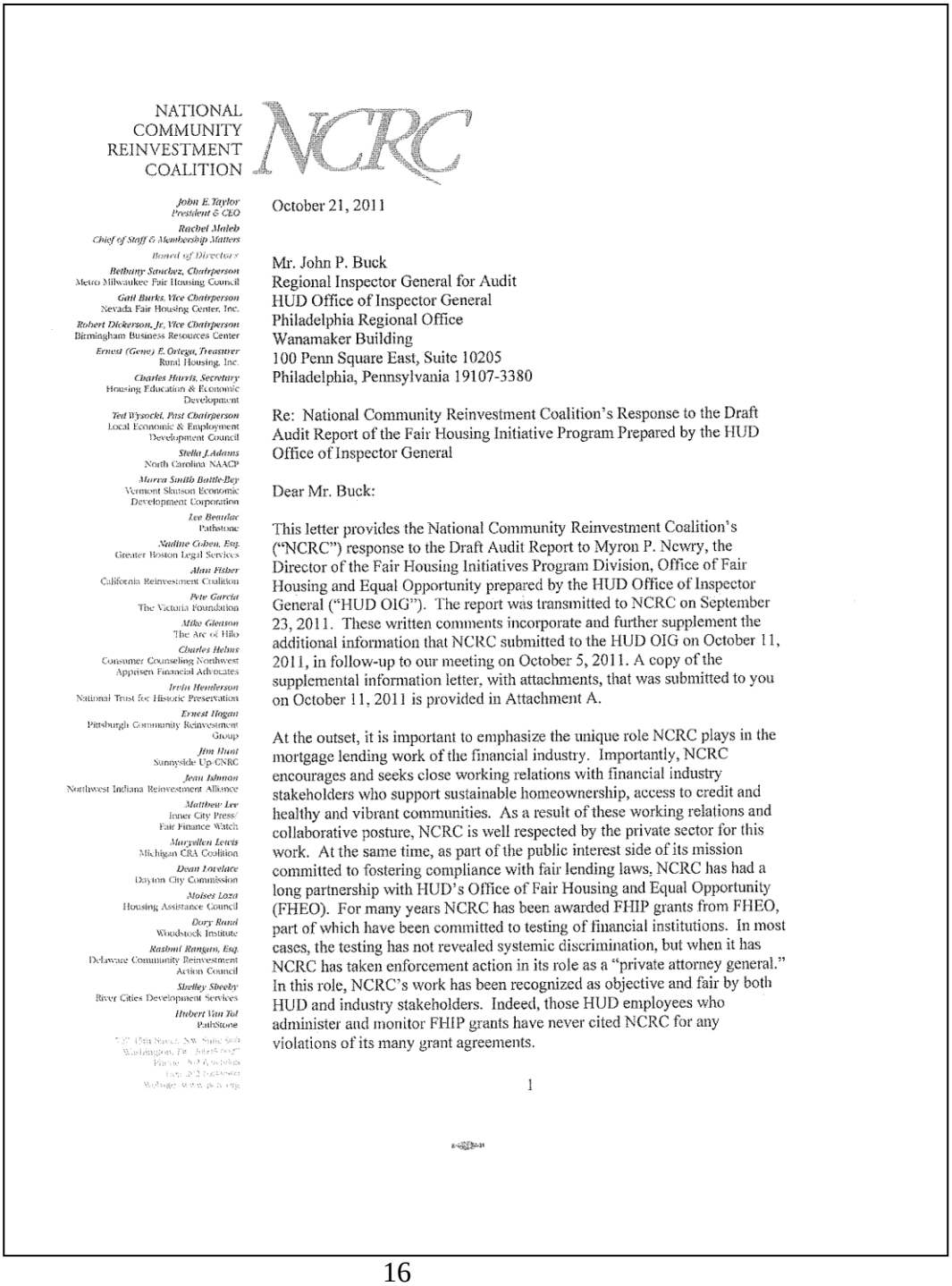
Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Comment 1

Comment 2



NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

[illegible] 15th Street, N.W., Suite 600
Washington, DC 20005-2707
Phone: 202.[illegible]
Fax: 202.[illegible]
Website: www.[illegible].org

October 21, 2011

Mr. John P. Buck
Regional Inspector General for Audit
HUD Office of Inspector General
Philadelphia Regional Office
Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, Pennsylvania 19107-3380

Re: National Community Reinvestment Coalition's Response to the Draft Audit Report of the Fair Housing Initiative Program Prepared by the HUD Office of Inspector General

Dear Mr. Buck:

This letter provides the National Community Reinvestment Coalition's ("NCRC") response to the Draft Audit Report to Myron P. Newry, the Director of the Fair Housing Initiatives Program Division, Office of Fair Housing and Equal Opportunity prepared by the HUD Office of Inspector General ("HUD OIG"). The report was transmitted to NCRC on September 23, 2011. These written comments incorporate and further supplement the additional information that NCRC submitted to the HUD OIG on October 11, 2011, in follow-up to our meeting on October 5, 2011. A copy of the supplemental information letter, with attachments, that was submitted to you on October 11, 2011 is provided in Attachment A.

At the outset, it is important to emphasize the unique role NCRC plays in the mortgage lending work of the financial industry. Importantly, NCRC encourages and seeks close working relations with financial industry stakeholders who support sustainable homeownership, access to credit and healthy and vibrant communities. As a result of these working relations and collaborative posture, NCRC is well respected by the private sector for this work. At the same time, as part of the public interest side of its mission committed to fostering compliance with fair lending laws, NCRC has had a long partnership with HUD's Office of Fair Housing and Equal Opportunity (FHEO). For many years NCRC has been awarded FHIP grants from FHEO, part of which have been committed to testing of financial institutions. In most cases, the testing has not revealed systemic discrimination, but when it has NCRC has taken enforcement action in its role as a "private attorney general." In this role, NCRC's work has been recognized as objective and fair by both HUD and industry stakeholders. Indeed, those HUD employees who administer and monitor FHIP grants have never cited NCRC for any violations of its many grant agreements.

1

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Comment 3

Comments 4 and 5

As set out below, the Audit concluded, as has FHIP consistently for many years, that NCRC was in **full compliance** with all programmatic and administrative requirements of the grant agreement and the requirements of FHIP. It is only in one area -- compliance with the conflict of interest provision of the grant agreement -- that the OIG Draft Audit Report finds a violation. NCRC strenuously disagrees with and objects to this finding and the factual and legal analysis done to reach it. Based on the comments, objections and information provided in this response, NCRC requests that the OIG revise its Draft Audit Report before finalization to incorporate the information contained in these comments and objections and remove the finding that NCRC violated any part of the FHIP grant agreement that was audited and the recommendation to FHIP/FHEO that NCRC be required to repay part of its 2008 FHIP grant. NCRC stands ready to discuss the contents of this response and the documents provided and to provide any additional information you may wish to review prior to the finalization of the Audit Report.

I. INTRODUCTION

As way of background, we set forth a summary of NCRC's Mission and a Description of its Programs. The purpose of providing this is to ensure a better understanding of the work and structure of NCRC and its programs.

Comment 6

NCRC's Mission

NCRC's Mission is to increase fair and equal access to credit, capital, and banking services/ products for low- and moderate-income communities and to actively assist in efforts to eliminate discrimination that is detrimental to the economic growth of those traditionally underserved communities within the United States, and also around the world. To this end, NCRC creates, implements, and supports long-term solutions and strategies that build community and promote individual economic well-being. Through information, research, programs, training and service, NCRC ensures that those who live in these traditionally underserved communities are treated fairly and justly when applying for credit, opening a bank account, or seeking a mortgage, a loan, and/or other financial products or services.

NCRC strives to ensure that banks, mortgage lenders, and others in the financial community are aware of their responsibilities and uphold basic standards in providing access to financial products and services to all people without discrimination.

NCRC's Various Programs, and Its Growth and Funding

Comment 6

A. Overall Description of NCRC's Growth and Locations

NCRC has grown from an organization with one employee working in donated space with an annual budget of less than $100,000 to a nationally respected association representing over 600 local affiliates with a budget of ten million dollars per year and seventy staff that provide a robust and diverse selection of national and local programs that celebrate NCRC's mission

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

and operate out of three offices in Washington, D.C., Houston, Texas and New York, New York.

Comment 6

B. Funding and Private Sector Matching Requirements

NCRC has a wide variety of programs and funding needs for these programs which include not only the National Neighbors testing program on which the OIG audit focused, but also NCRC's three Minority Business Enterprise Centers in New York City, Houston and the Mid-Atlantic, the District of Columbia Women's Business Center, NCRC's National Housing Conference, the NCRC Academy and related training initiatives, and the NCRC counseling programs – the Housing Counseling Network, the HUD Comprehensive Housing Counseling Program, and the HUD Housing Counseling Training Program.

Many of NCRC's programs -- including the HUD Mortgage Modification & Mortgage Scam Program, the HUD Emergency Home Loan Program, the NeighborWorks National Foreclosure Mitigation Counseling Program, the Department of Commerce's MBEC Program, and the Small Business Administration's Women's Business Center program -- *require* private sector matches which NCRC often seeks from financial institutions because of the nature of the programs.

Notably, many lenders, servicers, mortgage bankers and real estate providers recognize the need for them to affirmatively support and donate to the programs of fair housing and community development organizations that provide housing counseling, and promote small business lending, job creation, and foreclosure prevention. However, contributing to such efforts should not make these entities immune from government funded private enforcement of the fair housing laws.

Comment 6

C. NCRC's National Neighbors Program

National Neighbors is the NCRC program dedicated to creating innovative and cutting edge public and private sector partnerships and programs that promote racial, economic and cultural equality, opportunity and diversity. It does this by increasing multi-cultural dialogue and access, influencing public policy, and developing national models that support healthy and sustainable communities through the education about and enforcement of our nation's civil rights laws. It develops and funds local initiatives and partnerships that promote neighborhood diversity, affirmatively further fair housing and promote equal housing opportunity.

Through the National Neighbors initiative, NCRC also convenes, supports and pursues workshops, conferences, investigations of civil rights complaints often through systemic "testing," education and outreach, fair housing planning and "best practice" compliance initiatives. National Neighbors provides technical assistance to NCRC's members in urban, suburban and rural communities to promote economic mobility and ensure fair housing and fair lending for working families throughout our nation. National Neighbors also promotes the policy and regulatory interests of the fair housing and fair lending movement on Capitol

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Comment 6

Hill and advances fair lending and fair housing through multifaceted programs, including: building partnerships among communities; education and outreach; fair housing planning; and comprehensive voluntary compliance services.

Comment 6

Central to the National Neighbors program is private enforcement of fair housing and fair lending laws, which includes a fair housing and fair lending testing program. The National Neighbors testing program is the NCRC program designed to fill the need of providing a *private attorney general* to ensure compliance with fair housing and fair lending laws. Targets for fair housing and fair lending tests are selected through protocols and procedures as negotiated in each grant or contract and rely on several kinds of relevant public data. National Neighbors staff does not disclose to any NCRC staff in any other program any information about the entities that it is testing. Unlike the programs that require matching funds, funding for the National Neighbors program includes grants from the HUD Fair Housing Initiatives Program (FHIP) program, a HUD program that does not require matching funds like the programs discussed above. NCRC's National Neighbors program is designed to provide services and conduct investigations and fair housing and fair lending testing in a manner to avoid any influences on or interest in the outcome.

II. NCRC'S COMMENTS ON AND OBJECTIONS TO THE OIG DRAFT AUDIT REPORT'S FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Comment 7

The OIG first notified NCRC that it would conduct an audit of the Fair Housing Initiative Program on February 23, 2011. The audit was initiated after a Congressional inquiry, apparently concerning a series of tests of approximately 50 financial institutions conducted by NCRC as part of an investigation of the FHA programs through the systemic testing of these institutions in 2010. The initial focus of the OIG investigation was on this testing. However, none of this testing was funded by FHIP and thus was not subject to the provisions of any FHIP grant agreement. As a result, the OIG then shifted to a broader audit of the NCRC FHIP grants in the period from 2007-2010.

The audit continued for over six months and eventually was narrowed to focus on a review of only one of the FHIP grants received by NCRC -- a 2008 PEI grant in the amount of $230,000 awarded in December 2008. This grant's period of performance had been established as August 1, 2009 through July 31, 2010, and it was the most recently completed NCRC FHIP grant.

At the outset, it is important to emphasize that after this very in depth review NCRC's FHIP grants, the OIG audit found full compliance with all administrative and program activities related to the 2008 PEI program, stating at page 8 in the Draft Audit Report:

> The grantee generally met the administrative and program activities and tasks stipulated by the grant agreement and maintained adequate support for its program expenses. In accordance with the agreement, the grantee completed key tasks and activities including assigning key staff to administer the grant, drafting and

submitting a job description for a program coordinator, preparing and submitting its procedures for analyzing regional housing markets, hiring and training testers, and performing audit or complaint-based tests in specific locations. The grantee also submitted a final report to HUD as required.

Comment 8

The Draft Audit Report went on to state that the OIG did find a violation of one provision in the addendum to the grant agreement -- that NCRC "improperly solicited and received donations from 26 percent (10 of 38) of the lenders" in violation of the conflict of interest provision found in the addendum. In the end, however, the recommendation at page 10 is directed to the Director of the Fair Housing Initiatives Program Division, Office of Fair Housing and Equal Opportunity (FHIP and FHEO) to "develop and implement controls to detect and prevent conflict-of-interest situations related to its administration of the program."

Comment 8

While the Draft Audit Report also examined NCRC's procedures in verifying the criminal background of testers and recommended a review of these procedures, it found no "evidence of inappropriate criminal backgrounds in relation to the testers." Furthermore, it found no violation of the provision in the grant agreement which prohibits use of testers with prior felony or fraud or perjury convictions -- the "Testers" provision. It did state that "it is important for the grantee to implement verification procedures to ensure that its testers are free of felony or fraud- or perjury-related convictions," (page 9) but in the end, its recommendations, as was the case with the conflict of interest provision, is directed to FHIP and FHEO to "develop and implement controls to verify and document that its testers are free from felony convictions and criminal records involving fraud or perjury."

Comment 4

We strenuously object to the finding that NCRC violated the conflict of interest provision. As discussed below, there are numerous errors in the Draft Audit Report which require a change in this finding.

A. The OIG Finding

Comments 4, 9 and 10

At page 1 of its Draft Audit Report, the OIG states the disputed finding -- that "the grantee improperly solicited and/or received approximately $2.4 million in donations from 10 of 38 organizations (lenders) it tested under its grant within one year of the grant, thereby creating conflict-of-interest situations in violation of your grant agreement." Both the factual bases for this conclusion and the legal interpretation of the conflict of interest provision applied to these facts are so badly flawed that they render this finding erroneous.

1. The Failure to Consider NCRC's Firewall Policy

Comment 11

The overriding deficiency in the Draft Audit Report's finding is (a) its failure to substantively consider the adequacy of NCRC's longstanding *Firewall Policy* that NCRC implemented a decade ago to address potential conflicts of interest situations; and (b) the failure to acknowledge or discuss that the HUD FHEO Fair Housing Initiative Program staff that monitors FHIP grants has long been aware of this Policy and has never expressed any

Comment 2

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

concern or question that it is not adequate to ensure compliance with the grant agreement's conflict of interest provision.

Comment 11

As we discussed at our October 5 meeting, described to you in prior emails and then provided to you in the attached October 11, 2011 supplemental information letter, NCRC's Firewall Policy ("Policy") has been in place for over ten (10) years. It is designed to ensure compliance with the conflict of interest provision in HUD grant agreements as well as all applicable statutory, regulatory, legal, contractual and ethical requirements. Specifically, as set forth in the Policy description, it is designed to avoid conflicts of interest between its testing/enforcement program and its fundraising activities by walling them off from one another. All information concerning the National Neighbors' testing program is walled off from fundraising solicitation activities, with the exception of applications for federal, state or local programs that provide public or private sector funds for its fair housing and fair lending testing programs (like FHIP) or when a formal complaint is filed against an entity that has been tested. An important aspect of the testing program – the analysis of neutral and public financial data in the selection of testing targets – adds another important element to NCRC's efforts to ensure that the testing program will not create a conflict of interest situation.

Comment 6

As discussed in the introduction of this response, NCRC seeks and receives a wide diversity of Federal grants, several of which require or encourage matching grants. As a result, NCRC is not a typical FHIP programmatic recipient. For the NCRC programs which mandate matching funds, fundraising efforts are *required*. Because many financial institutions participate in these programs and enthusiastically support them, funding for the programs requiring matching funds often comes from such institutions, often donated voluntarily, but also resulting from fundraising activities of NCRC's development staff.

Comment 6

Comment 11

At the same time, the FHIP program is designed to promote compliance with the Fair Housing Act and funds testing programs all over the country. To be effective, the National Neighbors program must include fair housing and fair lending testing, and, given its mission, such testing will often be of financial institutions. This situation created a conflict of interest dilemma for NCRC. On one hand, NCRC was *required* to raise matching funds for some of the governmental programs for which it has received grants; on the other hand, NCRC has sought and received HUD funding from the FHIP program for many years to conduct a testing program that is designed to meet the purpose of FHIP enforcement grants -- to promote compliance with fair housing and fair lending laws. Cognizant of the conflict of interest provision in the FHIP grant agreement, NCRC adopted the Firewall Policy ten years ago with the goal of avoiding actual or perceived conflicts of interest because of these two types of programs. Generally, the Firewall Policy is designed to keep information about the National Neighbors testing program from the development staff and information about fundraising activities by development staff from the National Neighbors testing program staff. Given the variety of programs operated by NCRC which require matching funds, there will be times when testing is conducted of financial institutions that have made donations to NCRC and in some instances been solicited for donations. Since its inception, NCRC believes that its Firewall Policy has adequately protected against the type of impropriety for which the conflict of interest provision in the grant agreement was designed.

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Comment 11
Comment 2

Yet, the Draft Audit Report doesn't discuss or explain any shortcomings the OIG finds in the Firewall Policy, if there are any. Moreover, there is no mention in the Draft Audit Report of the fact that the HUD FHEO Fair Housing Initiative Program monitoring staff has long been aware of the Policy and has never expressed any concern or question that it is not adequate to ensure compliance with the grant agreement's conflicts of interest provision.

Comments 4 and 11

Comment 12

These two omissions are significant and undermine the OIG's finding. It is hard to understand how the OIG can make a finding that NCRC violated the conflict of interest provision without any consideration of the NCRC Policy designed and implemented ten years ago to ensure compliance and without any explanation of what shortcomings the OIG perceives in the Policy. Indeed, it is not clear what policies, if any, the OIG believes should be adopted to ensure compliance with the conflict of interest provision. When at the end of the Report, the OIG recommends that FHIP and FHEO "develop and implement controls to detect and prevent conflict-of-interest situations" (p. 10)," it appears that the OIG believes there are policies that could be implemented that could prevent conflict of interest situations. NCRC believes its Firewall Policy does just that, but the OIG rejects it without explanation.

Comment 11
Comment 2

Furthermore, the failure to include in the report any mention or consideration of the fact that FHEO's monitoring staff has long been aware of this Policy but has *never* raised any concerns or objections over a ten year period is also hard to understand. In such circumstances, it was patently reasonable for NCRC to interpret FHEO's lack of any objection to the Firewall Policy over this ten year period as evidence that FHEO believed that the Policy was adequate to ensure compliance with the grant agreement's conflict of interest provision. Conversely, it is neither reasonable nor fair for the OIG to issue a report that concludes retroactively that FHEO's acceptance of this Policy for a ten year period was incorrect and now declare that these past actions retroactively result in a violation of the conflict of interest provision. As noted above, the Draft Audit Report recommends that FHIP and FHEO develop controls to prevent conflict of interest violations. In other words, OIG is looking to FHIP and FHEO to develop what programs are adequate to prevent conflict of interest violations. Given that FHEO has consciously accepted NCRC's Firewall Policy for ten years, OIG should be waiting for the development of such programs by FHIP and FHEO before finding that any policy like NCRC's Firewall Policy is inadequate. Furthermore, in these circumstances, it is especially unfair and unwarranted for the OIG to recommend further that FHIP and FHEO require NCRC to repay any portion of the FHIP grant based on a new, retroactive interpretation of what the conflict of interest provision requires.

Comments 2 and 13
Comment 8

Comments 2 and 11
Comments 13 and 14

2. Errors in Factual Analysis and Legal Interpretation

Both the factual analysis and the legal interpretation of the conflict of interest provision applied to this analysis are so badly flawed that they render this finding erroneous.

Comments 4 and 9

a. The stated basis for the finding in the OIG Draft Audit Report that this provision was violated is inconsistent and, in any event, there is no support for either of the two analytical bases set forth in the report.

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Comment 10

The provision at issue is set forth in the appendix of the grant agreement and provides the following: "The Grantee agrees to certify that it *will not solicit funds from* or seek to provide fair housing educational or other services or products for compensation, directly or indirectly, to any person or organization which has been the subject of FHIP-funded testing by the Grantee in the past 12 months following testing." (emphasis added) There is no mention of "donations."

Comment 10

Yet, at page 11 of the report, there is the following explanation of the basis for the finding of a violation of the conflict of interest provision:

> We obtained a legal opinion from the Office of Inspector General's (OIG) Office of General Counsel regarding the grantee's noncompliance with conflict-of-interest provisions in its grant agreement. Counsel opined that the grantee engaged in conflicts of interest by accepting donations from lenders it tested within a year of the testing and similarly created apparent conflicts of interest by accepting donations from the nonprofit branches of lenders it tested.

Comment 10

This interpretation is plainly wrong. There is nothing in the conflict of interest provision indicating in any way that donations are prohibited. Moreover, it seems that the OIG is not sure of the meaning of the provision because the Draft Audit Report is schizophrenic as to the basis for its finding. For example, at page 1 the Draft Audit Report mentions solicitations when it states that "[t]he grantee improperly solicited and/or received approximately $2.4 million in donations from 10 of 38 organizations (lenders) it tested under its grant within 1 year of the grant, thereby creating conflict-of-interest situations in violation of the grant agreement." This is repeated at page 6. Yet, on page 7, the Draft Audit Report indicates that the basis for the finding is the same erroneous interpretation that is contained on page 11 when it states: "The grantee violated the provisions above because it received more than $2.4 million in donations between 2009 and 2010 from 10 of 38 lenders it tested within a year of the testing."

Comment 15

To the extent that one can say that the OIG's finding is based on facts demonstrating the improper solicitation of 10 the 38 organizations tested by NCRC's National Neighbors program, as opposed to the receipt of donations, there is a lack of factual support for such a finding. The OIG Draft Audit Report fails to identify any improper "solicitations" from any of these organizations during the 12 months after the tests were performed by NCRC's National Neighbors program between January 2010 and July of 2010. While the Draft Audit Report seems to imply that the review of the documentation provided by NCRC from three of the ten organizations who donated funds demonstrates improper solicitations, this is erroneous. None of that documentation indicates that there were solicitations of funds in the year after a test of that organization.[1]

Comments 15 and 16

[1] We attach the documentation provided to the OIG concerning the three organizations (PNC Foundation, Regions Bank, and BB & T). There is nothing in that documentation indicating a solicitation in the period 12 months after the testing. At one point during our October 5 meeting, the OIG appeared to rest its conclusion on

Comment 17

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

b. Foundations are Independent of Banks and Were Never Tested by NCRC

The Draft Audit Report fails to distinguish between lenders and charitable foundations, leading to further errors in its factual analysis.

A foundation's separate legal structure and its charitable/nonprofit purpose distinguish it from a for profit company. Indeed, private foundations are formed as nonprofits, granted 501(c) (3) status by the IRS, and are established to have a positive impact on society through philanthropic activities. While the private foundation may be sponsored by a donor (for-profit) company and often receives the majority of its funds from the donor company, a foundation is a separate legal organization, which normally has a distinct board of directors and is subject to the same regulations as other nonprofit foundations. A corporate foundation has a principal fund that is managed by its own officers, trustees, and staff, which gives the foundation some distance from the donor company and the freedom to independently choose the charities it will benefit.[2] It is patently inaccurate for the OIG's referenced legal opinion, at page 11, to refer to a foundation as "nonprofit branches of the lenders it tested," since a branch of a bank is simply another location of a bank's for-profit operations.

The OIG's identification of ten "lenders" as providing improper "donations "to NCRC is also inaccurate. The group of ten "lenders" actually is made up of five lenders and five foundations — (1) BOA Foundation; (2) JPMorgan Chase Foundation; (3) PNC Foundation; (4) SunTrust Foundation; and (5) Wachovia Foundation, with the OIG again ignoring the basic distinction between lenders and foundations. Most importantly, NCRC's National Neighbors *never conducted tests on any of these foundations*. Thus, by the specific terms of the conflict of interest provision, which plainly states that a violation arises only when an organization is solicited for funds after it has been tested, the finding of a violation of the conflict of interest provision cannot be based on solicitations (or donations) of an organization that was never tested.

Moreover, it is similarly erroneous to conclude that any funding provided by these five foundations could create a conflict of interest since foundations are not "lenders" but instead provide funds through grants and sponsorships to not-for-profit organizations. For example, the JPMorgan Chase Foundation, one of the organizations referenced in the OIG's Draft Audit Report on page 7, reports on its website that it directs the majority of its time, attention and investment in the most challenged areas of urban centers, with community and residential focused programs, including those involving homeownership and homebuyer workshops and foreclosure prevention, and affordable housing development and preservation. The PNC Foundation, another organization referenced in the Draft Audit Report on page 7, reports on its website information about its regional philanthropic giving

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the presence of invoices sent to the organization. Invoices are plainly not solicitations but are bills sent to establish or reflect an obligation to pay.

[2] See http://www.grantspace.org/Tools/Knowledge-Base/Funding-Resources/Foundations/Private-foundations-vs-public-charities and "Charitable Foundations in Corporate Reorganizations," Douglas P. Faucette. http://www.thefederation.org/documents/faucette.htm.

Comment 17

and highlights one of its priorities as being to form partnerships with community-based nonprofit organizations to enhance educational opportunities for children.

c. The Draft Audit Report does not properly identify "donations" that violate the conflict of interest provision.

Comments 10 and 18

At page 7, the Report erroneously concludes that NCRC received $2.4 million in "donations" that violated the conflict of interest provision. Putting aside the fact that only solicitations are proscribed by the conflict of interest provision and the failure to distinguish between charitable foundations and tested lenders (both discussed above), this conclusion is fatally flawed and grossly inaccurate because the Draft Audit Report fails to distinguish between donations that already had been made or had been committed prior to the testing of the ten organizations in the twelve months that followed the test of the lender.

Comments 10 and 18

Indeed, the data on donations examined by the OIG indicates that only three of the 10 organizations provided any funding to NCRC in the twelve month period after the date of the test(s) of the organization. The amount of this funding was $100,000, not $2.4 million as stated in the Draft Audit Report findings. Furthermore, only two of these three organizations were lenders that were tested—(1) B B & T, which donated $20,000, and (2) Regions Bank, which donated $50,000—with the remaining $30,000 being donated by the SunTrust Foundation. And, the $100,000 represents *donations* that were received within the 12 months of the testing of the lender, not solicitations, if there were any. See Attachments B, C and D. This factual error compounds the other factual errors in the Draft Audit Report, all of which render the finding of a violation of the conflict of interest provision clearly erroneous.[3]

Comment 17

B. Comment on Criminal Background Checks for Testers:

While the OIG Draft Audit Report did not find any violation of the provision concerning criminal background checks, it did opine that "it is important for the grantee to implement verification procedures to ensure that its testers are free of felony or fraud- or perjury-related convictions."

Comment 2
Comment 19

As NCRC advised the OIG's staff during the investigation process and also at the October 5, 2011 meeting, it always asks its testers whether they have a criminal record as part of the vetting process in selecting its testers. As was the case with NCRC's Firewall Policy, FHEO has long indicated that NCRC's approach is adequate and is consistent with the manner in which other FHIP grantees are approaching this check process. In any event, going forward,

Comments 10 and 18

[3] Although not at all clear, the OIG's Draft Audit Report appears to be considering donations made twelve months before the test as well as twelve months after. Since the conflict of interest provision clearly only applies to solicitations after a test, there is no basis for looking at solicitations made before a test. Again, although far from clear in the Draft Audit Report, it may be that the OIG is relying on another provision of the grant agreement entitled "Grantee/Tester Economic Interests." If in fact this is what the OIG relied upon in looking at donations made prior to the test that would be another error in the Draft Audit Report. While this provision is mentioned in the Draft Audit Report, there is no separate finding that NCRC violated it.

Comment 19

Comments 4, 10 and 14

Comment 8

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

NCRC has informed FHEO that it will add the cost of full background checks into its most recent FHIP awards. In the end, this is an issue that must be resolved by FHEO so that all FHIP grantees understand their obligations with regard to reviewing testers.

C. Conclusion

For the reasons stated above, NCRC respectfully, but strenuously, disagrees with the OIG's Draft Audit Report finding that NCRC violated the conflict of interest provision in the FHIP grant and requests that the OIG modify its report to find no violation and remove any recommendation that part of the FHIP grant be repaid.

In the end, the report is making recommendations to FHIP and FHEO personnel, and ultimately to HUD, concerning the conflict of interest and tester provisions in the standard grant agreements. If the finding and recommendations in the Draft Report remain unchanged, NCRC maintains that the dispute remains pending until further review is completed by FHIP and FHEO personnel and, if necessary, at higher levels within HUD. NCRC respectfully requests that the FHIP and FHEO program personnel evaluate this Report in light of the significant omissions, flawed analysis and errors that NCRC has identified in this Response. NCRC stands ready to provide any further information requested during this review and to meet with FHIP and FHEO personnel regarding this matter. Regardless of the outcome of the FHIP/FHEO (and any further Departmental review) review of the conflict of interest policy, the recommendation that NCRC repay any of the FHIP grant, as recommended by the OIG, is especially unwarranted in these circumstances and should be rejected by FHIP and FHEO.

Respectfully submitted,

John Taylor

cc: Myron Newry

Attachment A

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

October 11th, 2011

John P. Buck, Regional Inspector General for Audit
Osiko Tekpetey, Assistant Regional Inspector General for Audit
Forell Grant, Auditor
HUD Office of Inspector General
Philadelphia Regional Office
The Wannamaker Building
Philadelphia, Pennsylvania 19107-3380

By: Electronic Mail and US Mail.

Re: Draft Audit Discussion & Review Supplemental Information and Requests

Dear Mr. Buck, Ms. Tekpetey and Mr. Grant,

Thank you for the opportunity to provide additional information following our meeting on October 5, 2011. Attached is the National Community Reinvestment Coalition's *Firewall Policy*, which describes the decade long policy that the National Community Reinvestment Coalition (NCRC) has followed in keeping its testing and overall enforcement activities walled off from the organization's fundraising efforts. In addition, I have provided a document entitled, *National Community Reinvestment Coalition's Mission and Program Description*, which contains information on NCRC's programs and on funding and private sector matching requirements, as we discussed at the meeting, and which also contains further information on NCRC's National Neighbors Program's purpose and role in fulfilling the need of providing a private attorney general to ensure compliance with fair housing and fair lending laws. We trust that this additional information will be of assistance in your review of the draft audit report.

In light of this supplemental information, NCRC respectfully requests that the audit team revise the draft report to:

Comment 7

- Acknowledge that the Congressional inquiry that prompted this OIG review was a direct result of a recent NCRC fair lending audit examining FHA mortgage originators use of credit overlays in violation of Title VIII and FHA underwriting standards. While NCRC did divert resources to conduct this fair lending testing and review, no HUD Fair Housing Initiatives Program support was used to either file complaints to HUD FHEO or challenge the practices that prompted the original complaint to the OIG.

Comment 11

- Acknowledge the existence and use of the *National Community Reinvestment Coalition Firewall Policy* that it has been in place for over a decade to address conflict of interest

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NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Comment 11

concerns. We request that you include in your report the enclosed Policy that our Board of Directors and Executive staff put in place over a decade ago to ensure compliance with applicable statutory, regulatory, legal, contractual and ethical requirements, including conflict of interest provisions in grant agreements. As we discussed, NCRC is not the typical FHIP programmatic recipient due to the diversity of our Federal grants and the sophistication of our program, and we respectfully suggest that expanded HUD FHEO FHIP Program GTR and GTM monitoring of our long established Firewall policy is an appropriate recommendation by the OIG to ensure continued compliance with FHIP guidelines.

Comment 6

- Acknowledge and note the competing and conflicting regulatory, programmatic grant "match" requirements that have been imposed upon NCRC by Federal awards, in particular from the United States Department of Housing & Urban Development, The Department of Commerce and the Small Business Administration. A detailed list of Federal awards is included in the National Community Reinvestment Coalition's Mission and Program Description, which is provided with this letter. We respectfully request that you also note that the Firewall Policy was implemented to address these competing and inconsistent funding requirements.

Comment 2

- Acknowledge and clarify that HUD FHEO Fair Housing Initiatives Program monitoring staff knew of NCRC's internal conflict of interest and related criminal background check policies for testers and have never identified either the conflict of interest issue nor the criminal background check for mystery shoppers as an issue of concern in their ongoing program review & monitoring.

NCRC also respectfully requests that the OIG conduct the following additional assessments prior to issuing its report:

Comment 17

- Reevaluate its decision to define independently incorporated and governed charitable foundations as "lenders." These foundations have never been tested by National Neighbors under any Federal contract; and, under any legal, regulatory or tax standard, these foundations are considered separate corporations and should not be considered within the context of the FHIP program regulations. NCRC requests that the OIG remove from its report findings all information related to these foundations. Alternatively, if findings related to these foundations are not removed, we respectfully request that the OIG report incorporate our interpretation of the rule regarding the separate 501c3 status as independent corporations and the fact that the NCRC National Neighbors program has never tested any foundation.

Comment 20

- The draft report incorrectly apportions the contributions from the legal entitis that provided the JP Morgan Chase contribution. Two hundred thousand dollars of that contribution was, in fact, from the JP Morgan Chase **Foundation** support the NCRC Housing Counseling program, while the balance was for a donation to NCRC Annual

Comments 4 and 5

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Conference. Documentation establishing this fact previously has been submitted to the OIG, but we are once again providing that documentation with this letter.

- Review its finding to ensure that donations that were already in place during the specific time period under review are not identified erroneously as fundraising efforts to solicit funding within the specific time period under review.

In conclusion, the NCRC remains ready to provide to the OIG staff any additional information and assistance regarding the exhibits and requests contained in this letter. We firmly believe that the information and responses that we have provided to the OIG, and for that matter, the HUD Office of Fair Housing & Equal Opportunity FHIP Division, affirm our commitment and compliance to each of the Federal Contracts that we receive support under and celebrate our role representing the public interest to both the public and private sector as a "private attorney general" and an organization that celebrates equal access to credit, responsible and sustainable lending across the United States. Please feel free to contact me at either dberenbaum@ncrc.org or 202-464-2731 as appropriate.

Sincerely,

David Berenbaum
Chief Program Officer
National Community Reinvestment Coalition

Cc: Myron Newry, Director HUD FHEO Fair Housing Initiatives Program Division
Joe Rich, Esq., Lawyers Committee for Civil Rights Under Law
Linda H. Mullenbach, Esq., Lawyers Committee for Civil Rights Under Law
Rachel Maleh, Chief of Staff, NCRC
Dica Adotevi, Chief Financial Officer, NCRC
Michael D. Mitchell, Esq., Director, National Neighbors

3

Comment 11

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

National Community Reinvestment Coalition Firewall Policy

PURPOSE:

The National Community Reinvestment Coalition ("NCRC") Firewall Policy ("Policy") is in place to ensure compliance with applicable statutory, regulatory, legal, contractual and ethical requirements, including conflict of interest provisions in grant agreements, by keeping testing activities walled off from fundraising efforts as set forth, below, in the description of this Policy's procedures ("Procedures").

DAY-TO DAY COMPLIANCE RESPONSIBILITIES AND TRANSPARENCY

The NCRC Chief Program Officer has overall responsibility for ensuring compliance with this Policy and its Procedures, in cooperation with NCRC's Director of Development and other managers. Within National Neighbors, its Director, in conjunction with the NCRC Chief Program Officer, will monitor compliance with this Policy and its Procedures.

The Chief Program Officer will regularly report on compliance with this Policy and its Procedures to the Chief Executive Officer and to the NCRC Board of Directors, Program Committee. In addition, the NCRC Chief Program Officer, as a member of the NCRC Staff Development Workgroup, will work with the Director of Development and other NCRC managers to ensure compliance with this Policy and its Procedures.

NCRC will operate in a transparent manner with regard to this Policy and will affirm this Policy with NCRC's stakeholders and funders as appropriate or as requested.

PROCEDURES:

1. The NCRC Board of Directors, as NCRC's governing entity, shall ensure full compliance with any and all federal requirements, directly and through its Program, Business, Finance, Membership and Executive Committees and their oversight authority. Further, NCRC's independent auditor will review all program areas for OMB and related funder agency requirements, and shall review the compliance with this Policy to ensure that NCRC programs are abiding by the Policy and are in compliance with appropriate and pertinent funding requirements.

2. Institutions that contribute to NCRC's Annual Conference, and programmatic NCRC work, such as the HUD Counseling Program and/or the NeighborWorks National Foreclosure Mitigation Counseling Program, NCRC's small business lending initiatives, and the Minority Business Centers and the District of Columbia Women's Business Center, will be made aware of NCRC's role as a

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sub-contractor to HUD, the prudential regulators and NCRC's broader role as a private attorney general.

3. National Neighbors staff is prohibited from involvement in all fundraising activities, with the exception of applications for federal, state or local programs that provide public or private sector funds for its fair housing and fair lending programs where no conflict of interest exists.

4. All NCRC staff responsible for fundraising for any NCRC program shall not reveal to any staff in the National Neighbors program the identity of organizations that are the subject of fund raising efforts.

5. National Neighbors staff will determine testing "targets" through protocols and procedures as negotiated in each grant or contract, including for example, review of LSP, HMDA, census, and other relevant public data. National Neighbors staff will not disclose to any NCRC staff in any other program any information about the entities that it is testing, except as required in Numbers 5 and 6, below, of these Procedures.

6. When National Neighbors has determined the legal entities that it will be testing, its Director will provide that list of legal entities and the date each legal entity was selected for testing to NCRC's Program Officer. NCRC's Program Officer will then advise the Director of Development and all NCRC staff involved in fundraising that those legal entities where NCRC has no existing relationship cannot be solicited as part of NCRC's fundraising efforts for 12 months from the date each legal entity was selected for testing.

7. If, as a result of the testing conducted by National Neighbors, a determination is made that the entity tested where a pre-existing or ongoing relationship exists has violated fair lending laws leading to the referring or filing of a complaint with HUD or in Court, then the NCRC Chief Program Officer shall inform the Director of Development and the fundraising staff of the referring or filing of a complaint and the continuation of the suspension of any fundraising activity related to that legal entity.

8. Regardless of funding source and regardless of the program area, if a referral is made or a civil or administrative complaint is filed, any fundraising activity with that legal entity will remain suspended until the matter is resolved. If the matter is resolved prior to twelve months from date of the legal entity's selection for testing, then fundraising activities cannot commence with respect to this legal entity until twelve months have passed from the date that the legal entity was selected for testing.

Any questions regarding this Policy and its Procedures should be directed to NCRC's Chief Program Officer.

Comment 6

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

National Community Reinvestment Coalition's Mission and Program Description

Mission

The National Community Reinvestment Coalition's ("NCRC") mission is to increase fair and equal access to credit, capital, and banking services/products for low- and moderate-income communities and to actively assist in efforts to eliminate discrimination that is detrimental to the economic growth of those traditionally underserved communities within the United States, and also around the world. To this end, NCRC creates, implements, and supports long-term solutions and strategies that build community and promote individual economic well-being. Through information, research, programs, training and service, NCRC ensures that those who live in these traditionally underserved communities are treated fairly and justly when applying for credit, opening a bank account, or seeking a mortgage, a loan, and/or other financial product or service.

NCRC strives to ensure that banks, mortgage lenders, and others in the financial community are aware of their responsibilities and uphold basic standards in providing access to financial products and services to all people without discrimination.

NCRC's Various Programs, and Its Growth and Funding

a. Overall Description of NCRC's Growth and Locations

NCRC has grown from an organization with one employee working in donated space with an annual budget of less than $100,000 to a nationally respected association representing over 600 local affiliates with a budget of ten million dollars per year and seventy staff that provide a robust and diverse selection of national and local programs that celebrate NCRC's mission and operate out of three offices in Washington, D.C., Houston, Texas and New York, New York.

b. Funding and Private Sector Matching Requirements

Funding needs for NCRC's various programs include not only National Neighbors, but also NCRC's three Minority Business Enterprise Centers in New York City, Houston and the Mid-Atlantic, the District of Columbia Women's Business Center, NCRC's National Housing Conference, the NCRC Academy and related training

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initiatives, and the NCRC counseling programs – the Housing Counseling Network, the HUD Comprehensive Housing Counseling Program, and the HUD Housing Counseling Training Program.

Some programs -- including the HUD Mortgage Modification & Mortgage Scam Program, the HUD Emergency Home Loan Program, the NeighborWorks National Foreclosure Mitigation Counseling Program, the Department of Commerce's MBEC Program, and the Small Business Administration's Women's Business Center program -- require private sector matches which are often sought from financial institutions.

c. NCRC's National Neighbors Program

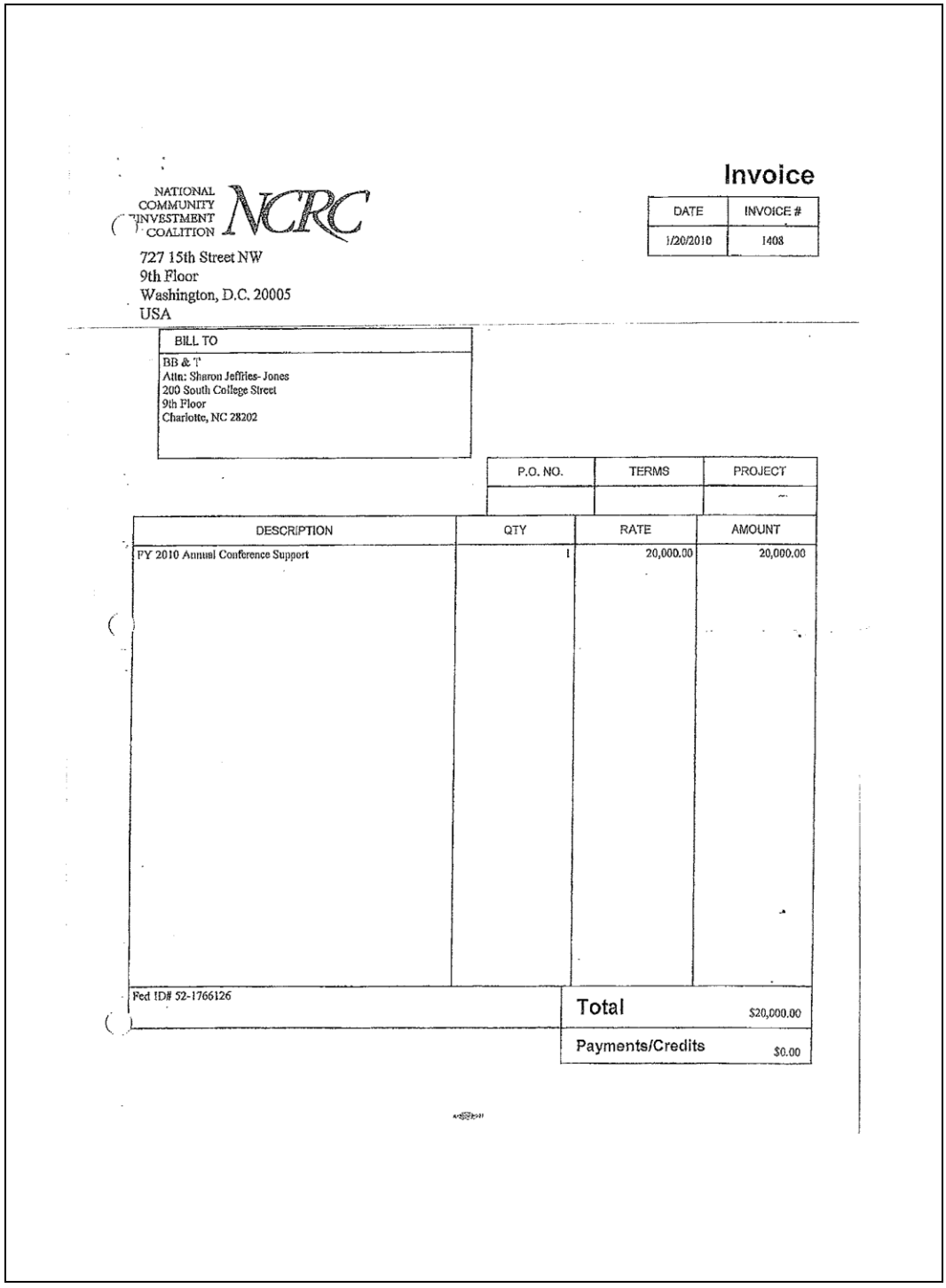
National Neighbors, which is one of NCRC's programs, is dedicated to creating innovative and cutting edge public and private sector partnerships and programs that promote racial, economic and cultural equality, opportunity and diversity. It does this by increasing multi-cultural dialogue and access, influencing public policy, and developing national models that support healthy and sustainable communities through the education about and enforcement of our nation's civil rights laws. It develops and funds local initiatives and partnerships that celebrate neighborhood diversity, affirmatively further fair housing and promote equal housing opportunity.

Through the National Neighbors initiative, NCRC convenes, supports and pursues workshops, conferences, investigations of civil rights complaints, systemic "testing," education and outreach, fair housing planning and "best practice" compliance initiatives. National Neighbors provides technical assistance to NCRC's members in urban, suburban and rural communities to promote economic mobility and ensure fair housing for working families throughout our nation. It advances fair lending and fair housing through multifaceted programs, including: private enforcement; education and outreach; fair housing planning; comprehensive voluntary compliance services; and testing and building partnerships among communities, real estate providers, financial institutions and other market players. National Neighbors also promotes the policy and regulatory interests of the fair housing movement on Capitol Hill.

The National Neighbors program is the NCRC program designed to fill the need of providing a *private attorney general* to ensure compliance with fair housing and fair lending laws. Unlike the federal programs which encourage and/or require public and private sector partnerships and financial in-kind or direct support for other NCRC programs, the operation of NCRC's National Neighbors program is designed to provide services and conduct investigations and audits in the absence of any influences or interest in the outcome. And unlike the programs that require matching funds, funding for the National Neighbors program includes grants from the HUD FHIP program.

Comment 15

Attachment B



NATIONAL COMMUNITY INVESTMENT COALITION NCRC

727 15th Street NW
9th Floor
Washington, D.C. 20005
USA

Invoice

DATE	INVOICE #
1/20/2010	1408

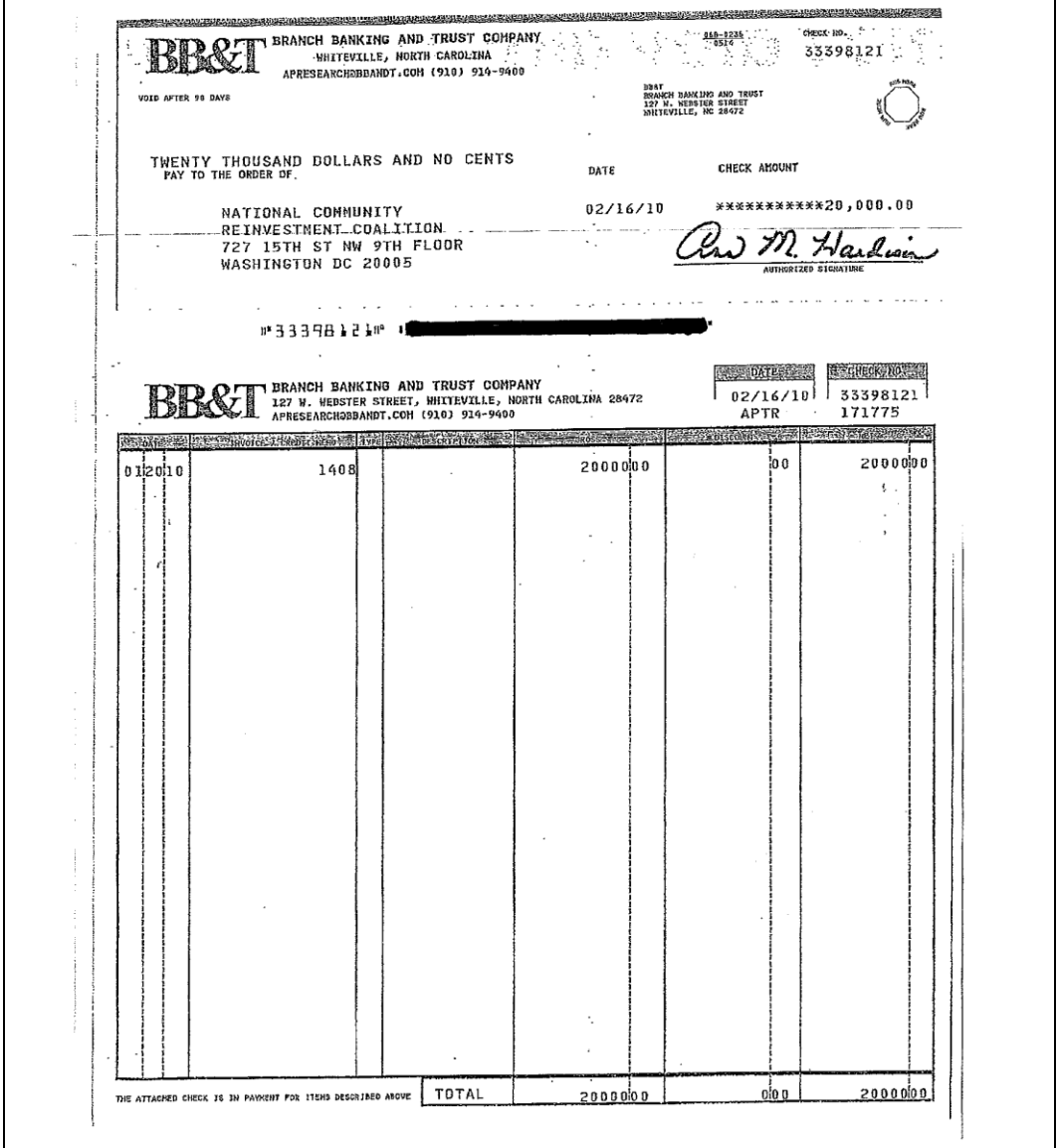
BILL TO
BB & T Attn: Sharon Jeffries- Jones 200 South College Street 9th Floor Charlotte, NC 28202

P.O. NO.	TERMS	PROJECT

DESCRIPTION	QTY	RATE	AMOUNT
FY 2010 Annual Conference Support	1	20,000.00	20,000.00

Fed ID# 52-1766126

Total	$20,000.00
Payments/Credits	$0.00



BB&T BRANCH BANKING AND TRUST COMPANY
WHITEVILLE, NORTH CAROLINA
APRESEARCH@BBANDT.COM (910) 914-9400

CHECK NO. 3398121

VOID AFTER 90 DAYS

BRANCH BANKING AND TRUST
127 W. WEBSTER STREET
WHITEVILLE, NC 28472

TWENTY THOUSAND DOLLARS AND NO CENTS
PAY TO THE ORDER OF.

DATE 02/16/10

CHECK AMOUNT **********20,000.00

NATIONAL COMMUNITY
REINVESTMENT COALITION
727 15TH ST NW 9TH FLOOR
WASHINGTON DC 20005

AUTHORIZED SIGNATURE

⑈3398121⑈ [redacted]

BB&T BRANCH BANKING AND TRUST COMPANY
127 W. WEBSTER STREET, WHITEVILLE, NORTH CAROLINA 28472
APRESEARCH@BBANDT.COM (910) 914-9400

DATE	CHECK NO.
02/16/10	33398121
APTR	171775

INVOICE DATE	INVOICE/CREDIT NO.	DESCRIPTION	GROSS AMOUNT	DISCOUNT	NET AMOUNT
01/20/10	1408		2000000	00	2000000

THE ATTACHED CHECK IS IN PAYMENT FOR ITEMS DESCRIBED ABOVE

TOTAL	2000000	000	2000000

Comment 15

Attachment C

Douglas J. Jackson
Senior Vice President
Director of Regulatory and
Community Affairs

REGIONS

February 10, 2010

John Taylor
National Community Reinvestment Coalition
727 15th Street, NW, Suite 900
Washington, DC 20005

Dear John,

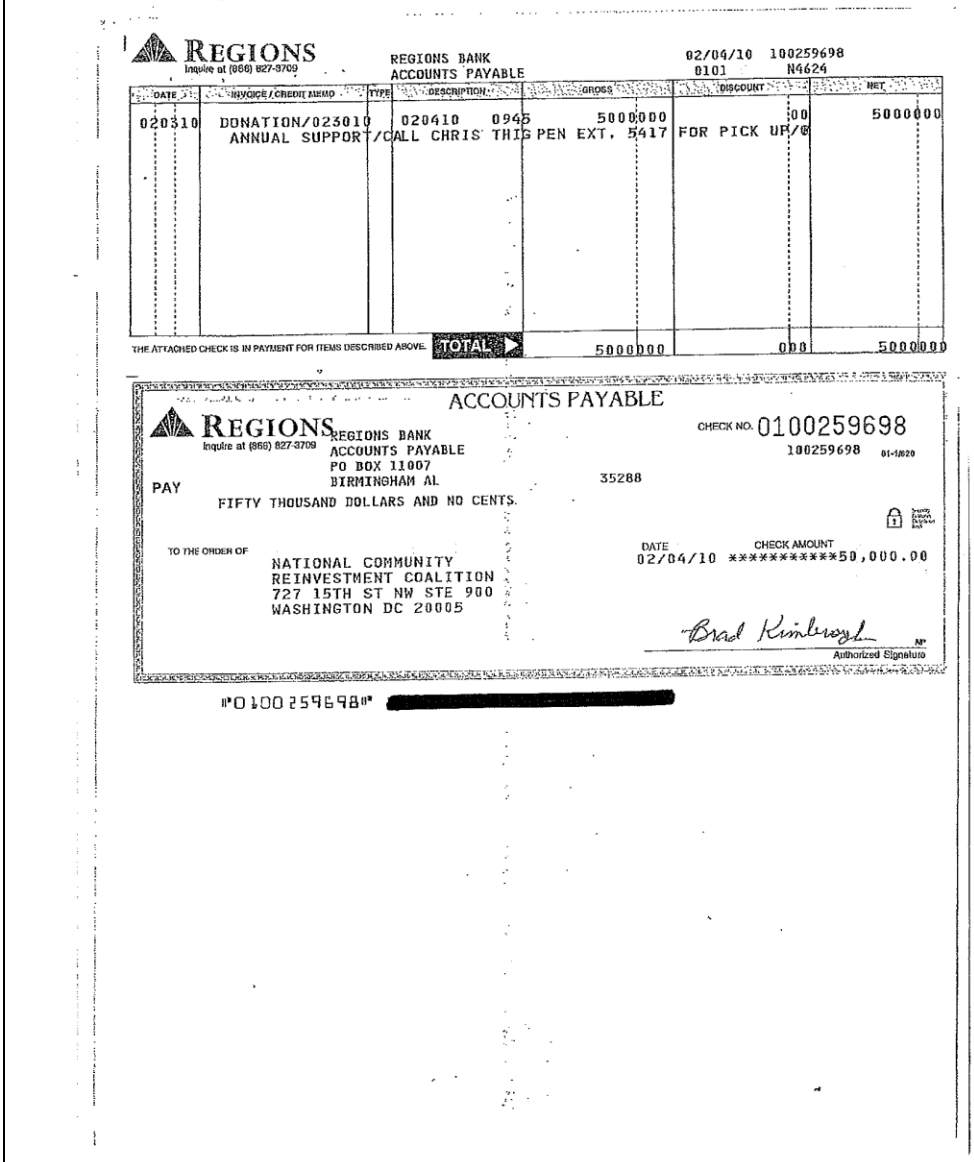
On behalf of Regions Bank, I am pleased to present to you the enclosed $50,000.00 check for our sponsorship of your 2010 annual conference.

Sincerely,

Douglas Jackson

See you soon —

1900 5th Avenue North, 9th floor
Birmingham, Alabama 35203
(205) 801.0573
Fax (205) 264.0339
doug.jackson@regions.com



REGIONS
Inquire at (866) 827-3709

REGIONS BANK
ACCOUNTS PAYABLE

02/04/10 100259698
0101 N4624

DATE	INVOICE/CREDIT MEMO	TYPE	DESCRIPTION	GROSS	DISCOUNT	NET
020310	DONATION/023010 ANNUAL SUPPORT/CALL CHRIS THIS PEN EXT. 5417		020410 0945	5000000	00 FOR PICK UP/G	5000000

THE ATTACHED CHECK IS IN PAYMENT FOR ITEMS DESCRIBED ABOVE. TOTAL ▶ 5000000 000 5000000

ACCOUNTS PAYABLE

REGIONS
Inquire at (866) 827-3709

REGIONS BANK
ACCOUNTS PAYABLE
PO BOX 11007
BIRMINGHAM AL 35288

CHECK NO. 0100259698
100259698 01-1/820

PAY FIFTY THOUSAND DOLLARS AND NO CENTS.

TO THE ORDER OF
NATIONAL COMMUNITY
REINVESTMENT COALITION
727 15TH ST NW STE 900
WASHINGTON DC 20005

DATE 02/04/10
CHECK AMOUNT **********50,000.00

Brad Kimbrough
Authorized Signature

⑈0100259698⑈ [redacted]

Invoice

DATE	INVOICE #
2/17/2010	1413

727 15th Street NW
9th Floor
Washington, D.C. 20005
USA

BILL TO
Regions Financial Corporation Attn: Jeffrey R. Lyttle Regional President 100 E Broad Street, 9th Fl. Columbus, OH 43215

P.O. NO.	TERMS	PROJECT

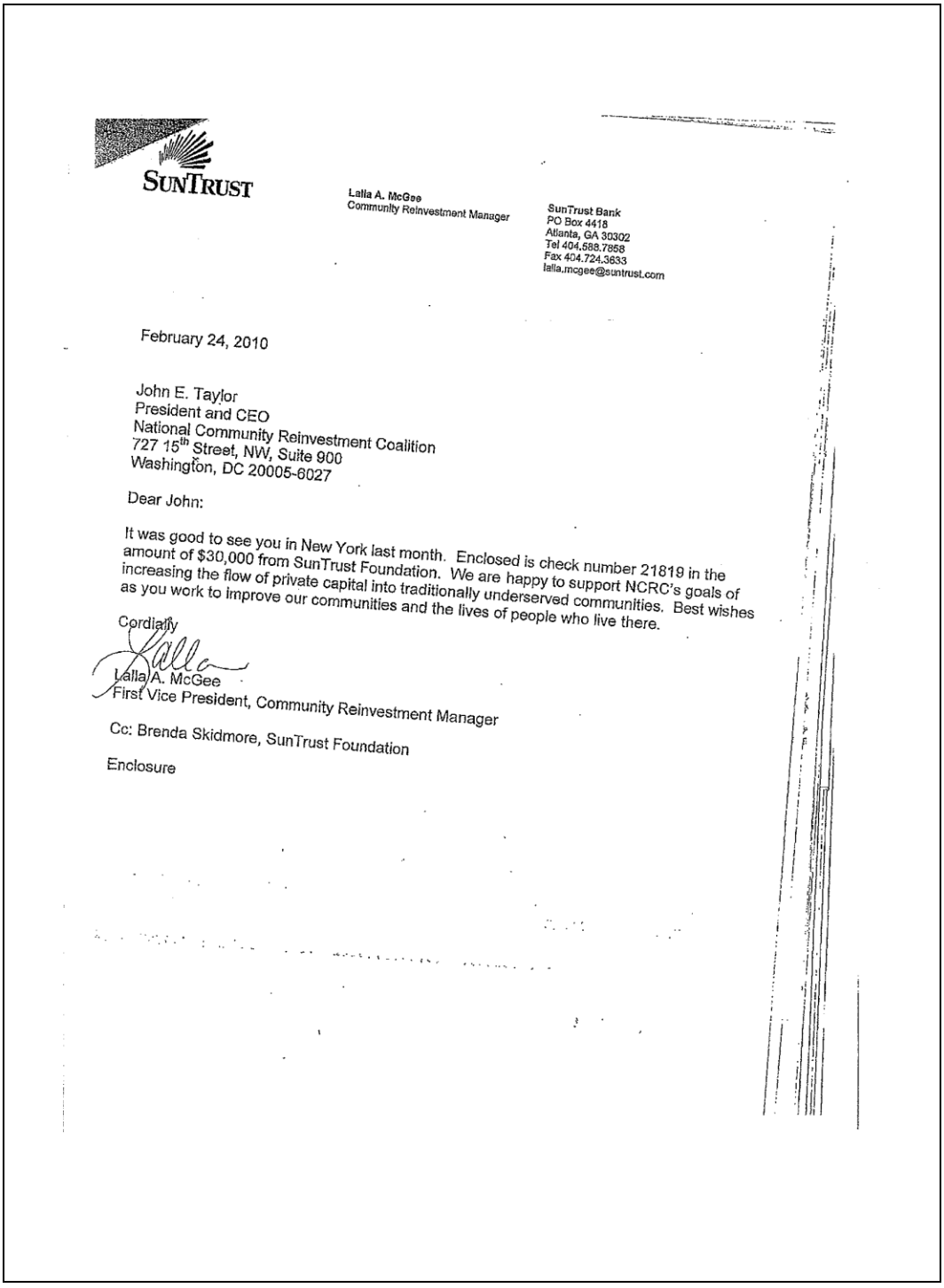
DESCRIPTION	QTY	RATE	AMOUNT
2010-Annual Conference	1	50,000.00	50,000.00

Thank you for your business.

Total	$50,000.00
Payments/Credits	$0.00

Comments 16

Attachment D



SUNTRUST

Lalla A. McGee
Community Reinvestment Manager

SunTrust Bank
PO Box 4418
Atlanta, GA 30302
Tel 404.588.7858
Fax 404.724.3633
lalla.mcgee@suntrust.com

February 24, 2010

John E. Taylor
President and CEO
National Community Reinvestment Coalition
727 15th Street, NW, Suite 900
Washington, DC 20005-6027

Dear John:

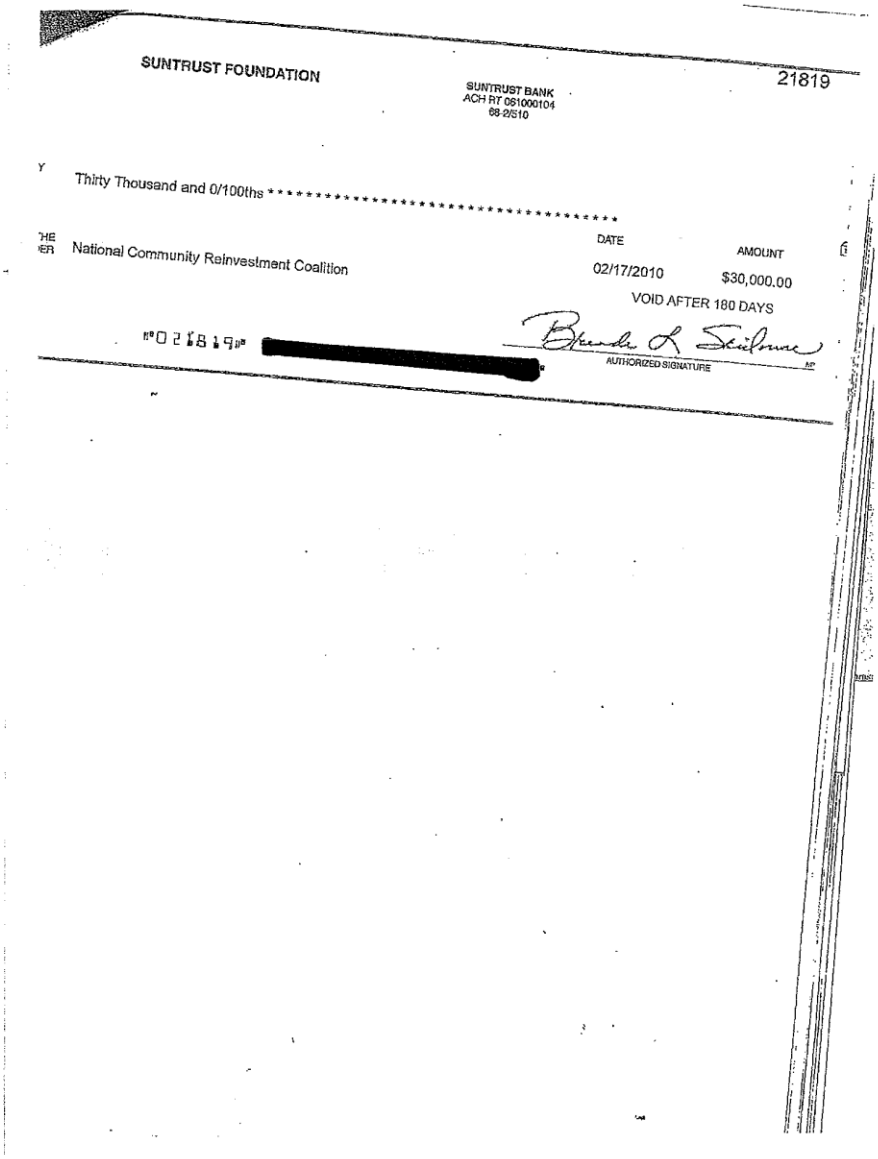
It was good to see you in New York last month. Enclosed is check number 21819 in the amount of $30,000 from SunTrust Foundation. We are happy to support NCRC's goals of increasing the flow of private capital into traditionally underserved communities. Best wishes as you work to improve our communities and the lives of people who live there.

Cordially,

Lalla A. McGee
First Vice President, Community Reinvestment Manager

Cc: Brenda Skidmore, SunTrust Foundation

Enclosure



SUNTRUST FOUNDATION

SUNTRUST BANK
ACH RT 061000104
68-2/510

21819

Thirty Thousand and 0/100ths **********

DATE 02/17/2010

AMOUNT $30,000.00

National Community Reinvestment Coalition

VOID AFTER 180 DAYS

⑈021819⑈ [redacted]

AUTHORIZED SIGNATURE

Invoice

DATE	INVOICE #
3/2/2010	1416

727 15th Street NW
9th Floor
Washington, D.C. 20005
USA

BILL TO
SunTrust Banks Foundation Attn: Lalla McGee 303 Peachtree Street, NE 33th Floor-Mail Code GA-Atlanta-0663 Atlanta, GA 30308

P.O. NO.	TERMS	PROJECT
	Due on receipt	

DESCRIPTION	QTY	RATE	AMOUNT
2010 Conference March 10-13, 010 .	1	30,000.00	30,000.00

Thank you for your business.

Total	$30,000.00
Payments/Credits	$-30,000.00

OIG Evaluation of Auditee Comments

Comment 1 Our specific audit objective on this external audit was to determine whether the grantee complied with the terms and provisions of the grant agreement and HUD requirements. We did not audit the overall role the grantee played in the mortgage lending work of the financial industry. The audit evidence showed that the grantee engaged in conflicts of interest by accepting donations from lenders it tested within a year of the grant testing period and similarly allowed potential apparent conflicts of interest to exist by accepting donations from the nonprofit arms or foundations of lenders it tested.

Comment 2 We did not audit HUD's overall administration and monitoring of its Fair Housing Initiative Program (FHIP) grants as this was not part of our specific audit objective on this external audit. However, we found no evidence that the grantee sought and obtained HUD approval for any policies and procedures[4] to ensure its compliance with the grant agreement provisions.

Comment 3 The grantee's assertion that the audit concluded it was in full compliance with all programmatic and administrative requirements of the grant agreement and requirements of FHIP is incorrect. The audit concluded that the grantee generally completed administrative and program activities and tasks in accordance with its agreement.

Comment 4 We performed our audit work in accordance with generally accepted government auditing standards, as well as our audit operations policy. The audit evidence fully supports our conclusions and recommendations.

Comment 5 We conducted several interviews and requested relevant information and documentation during the audit. We also considered feedback the grantee provided during our October 5, 2011, exit conference, as well as its response and accompanying attachments and determined that it has not provided any information that changes our conclusions and recommendations. The grantee's response in its entirety along with the related attachments was incorporated into the audit report.

Comment 6 As stated above, we did not audit the grantee's overall role in the mortgage lending work of the financial industry. Regardless of challenges it might have had due to its administration of other Federal awards, the grantee was legally required to comply with all terms and provisions of its FHIP grant agreement.

Comment 7 While we did initiate the audit in response to a congressional inquiry, the grantee's assumption or implication that the inquiry was solely related to its investigations of approximately 50 financial institutions is incorrect and unfounded. Its assertion that these investigations were the initial focus of our

[4] The grantee refers to such policies and procedures as it Firewall Policy.

testing and that we shifted to a broader audit of its FHIP grants is also incorrect. As stated in our audit notification to the grantee, our audit objective was to determine whether it administered its grants in accordance with HUD rules and regulations.

Comment 8 In accordance with our audit operations policy, our reports on reviews of HUD grantees are addressed to the HUD officials that administer the applicable program(s). Accordingly, our recommendations are to those officials who in turn direct and work with grantees to implement the audit recommendations.

Comment 9 The factual analysis and legal interpretation of the grant's conflict-of-interest provisions are valid based on the program requirements outlined in comment 10 below. We have added additional language to the finding discussion in the report to further explain the grantee's violation of the conflict-of-interest provisions in the grant agreement.

Comment 10 The grant agreement included a conflict-of-interest provision that required the grantee to certify that it would not solicit funds from any person or organization which had been the subject of FHIP-funded testing by the grantee in the 12 months following the testing. Although the provision did not prohibit donations, the agreement included other conflict-of-interest related provisions that impact donations or contributions from organizations tested. The agreement included an economic interests clause which required that the grantee not have any employment or other affiliation, within 1 year before or after testing, with persons or organizations tested. In addition, the agreement required the grantee to certify to additional assurances including compliance with regulations at 24 CFR 84.42. Key language from those regulations states:

> "No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved… The officer, employees, and agents shall neither solicit, nor accept gratuities, favors, or anything of monetary value from contractors, or parties to subagreements."

While the economic interests clause and the additional required certification were not directly incorporated into the conflict-of-interest provision, our legal opinion from the Counsel to the Inspector General indicated that they were related to conflicts of interest because they clearly require a separation of interests between the tester and the entities tested. Counsel opined that the clear intent of the requirements was to protect the integrity of testing by requiring an arm's length relationship between the grantee and the lenders it tested. The grantee violated the requirements because it solicited and/or accepted more than $2.4 million in donations from the 10 lenders we identified within a year of the grant testing period, thereby creating inappropriate conflict-of-interest situations. The grantee engaged in conflicts of interest by accepting donations from seven lenders it tested within a year of the testing period, and similarly allowed apparent conflicts

of interest to exist by accepting donations from the nonprofit arms or foundations of three lenders it tested. We have made updates to the report as necessary to ensure consistent reporting of the basis for our conclusions.

Comment 11 The grantee refers to controls in relation to its administration of its FHIP grants as its Firewall Policy and asserts that the policy was implemented a decade ago. However, it provided no evidence to support this claim. At the beginning of the audit, in an attachment to the audit notification to the grantee, we asked that it provide its written policies or procedures to demonstrate its compliance with conflict-of-interest and economic interest provisions in its grant agreement with HUD. The grantee did not provide this information. In response to a May 24, 2011, e-mail in which we asked the grantee whether it solicited monetary support from lenders it tested under its FHIP grants, it replied on June 10, 2011, stating that it did not request support of any kind from any person or entity that had been the subject of FHIP-funded testing for a period of 12 months after the testing, and that it had a firewall in place to ensure its compliance with FHIP requirements. However it did not provide a copy of its Firewall Policy. In a meeting with the grantee on September 20, 2011, it described policies it had implemented to ensure its compliance with FHIP requirements but stated that the policies were not in writing. Based on the grantee's description of its policies, it appears that it erroneously believed it had sufficient controls to ensure its compliance mainly because it segregated duties between staff responsible for fundraising and those responsible for coordinating lender testing.

Following our exit conference with the grantee on October 5, 2011, it provided us a copy of its Firewall Policy on October 12, 2011; therefore, it is unclear when the policy was established or in effect. Nevertheless we reviewed the policy and determined that the grantee violated its own policy, and that the policy as written will not fully address the issues we identified based on the criteria outlined in comment 10.

Procedures 6 and 8 in the grantee's Firewall Policy come closest to addressing the grantee's violations of the requirements discussed above. Procedure 6 appears to be an attempt to address the conflict-of-interest provision in the grant agreement. However, it indicates that the grantee will only refrain from soliciting funds from legal entities with which it has no existing relationships within the confines of the 12-month timeframe provided by the grant agreement. Therefore it does not adequately address the provision because the provision simply requires the grantee to refrain from soliciting any entities that it has tested for 12 months following the testing. Moreover, the grantee violated this procedure because it solicited and accepted donations from three lenders it tested within a year of the grant testing period. Procedure 8 appears to partially address the economic interests provision because it indicates that the grantee will not solicit funds from a legal entity until 12 months have passed following the resolution of a referral or complaint in relation to the entity. However, the policy will clearly not ensure a key requirement of the economic interests provision which is that the grantee

cannot have any affiliation within 1 year before or after testing with organizations tested. Also, neither procedure will correct the fact that the audit evidence showed that apparent conflicts of interest existed.

Comment 12 It is the grantee's responsibility as a recipient of FHIP grant funds to implement adequate policies and procedures to ensure its compliance with grant agreement terms and provisions and all other applicable requirements.

Comment 13 Contrary to the grantee's assertions, our findings are not a retroactive conclusion that HUD's acceptance of the grantee's policy for a 10-year period was incorrect. Rather, our conclusions are based on the grantee's violation of provisions in its FHIP agreement relating to conflicts of interest as discussed in the report and further explained in comment 10. Also, as discussed in comment 11 the grantee's policy as written will not fully address the issues we identified based on the relevant criteria.

Comment 14 Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. Such costs must be repaid to HUD. The grantee must repay $59,800 or 26 percent of $230,000 in grant funds it spent because it improperly accepted donations from 26 percent (10 of 38) of the lenders it tested.

Comment 15 As discussed in the report, the grantee improperly accepted approximately $2.4 million in donations from 10 of 38 lenders it tested under its grant within a year of the grant testing period. Our review of the grantee's records disclosed that it solicited funds from 3 of the 10 lenders within a year after testing. The three lenders were Regions Bank, BB&T and PNC. The grantee tested Regions Bank on January 19 and 22, 2010. On February 17, 2010, it invoiced the lender for a contribution to its 2010 annual conference. Also, the grantee tested BB&T on January 19, 2010, and invoiced the lender for a contribution to its 2010 annual conference on January 20, 2010. In the case of PNC, the grantee invoiced the lender for a contribution on April 22, 2010, which fell within a year of the grant testing period. The grantee's invoices constitute solicitations of the lenders because the invoices were basically requests for payment. The grantee asserts that the invoices were to establish or reflect an obligation to pay. However, based on the grant agreement provisions, the grantee should not have been seeking to establish any obligations for lenders to pay within a year of the test period related to the lenders.

Comment 16 Although the grantee stated that it attached documentation for PNC Foundation, Regions Bank and BB&T, it actually attached documentation for BB&T (attachment B), Regions Bank (attachment C) and SunTrust Foundation (attachment D). Therefore, we do not comment on attachment D in regard to the solicitation issue because we did not identify SunTrust Foundation as one of the lenders we considered to have been improperly solicited.

Comment 17 We understand that foundations are separate legal entities, and that the grantee did not test the foundations. However, the grantee's acceptance of donations or contributions from foundations of lenders it tested within a year of the grant testing period creates apparent conflict-of-interest situations which violate CFR requirements incorporated into the grant agreement. Our conclusion is supported by a legal opinion from OIG Counsel. Also, the legal opinion actually referred to the foundations as "nonprofit arms" therefore, we have updated the report to ensure consistency with the language from the legal opinion.

Although the grantee asserts that the group of 10 lenders we identified includes 5 foundations (BOA- Bank of America, JP Morgan Chase, PNC, SunTrust and Wachovia), we identified three foundations (Bank of America, SunTrust and Wachovia) based on the audit evidence. The audit documentation showed that donations from JP Morgan Chase and PNC were provided by the lenders and not the related foundations. We added appendix C to show the documentation we reviewed.

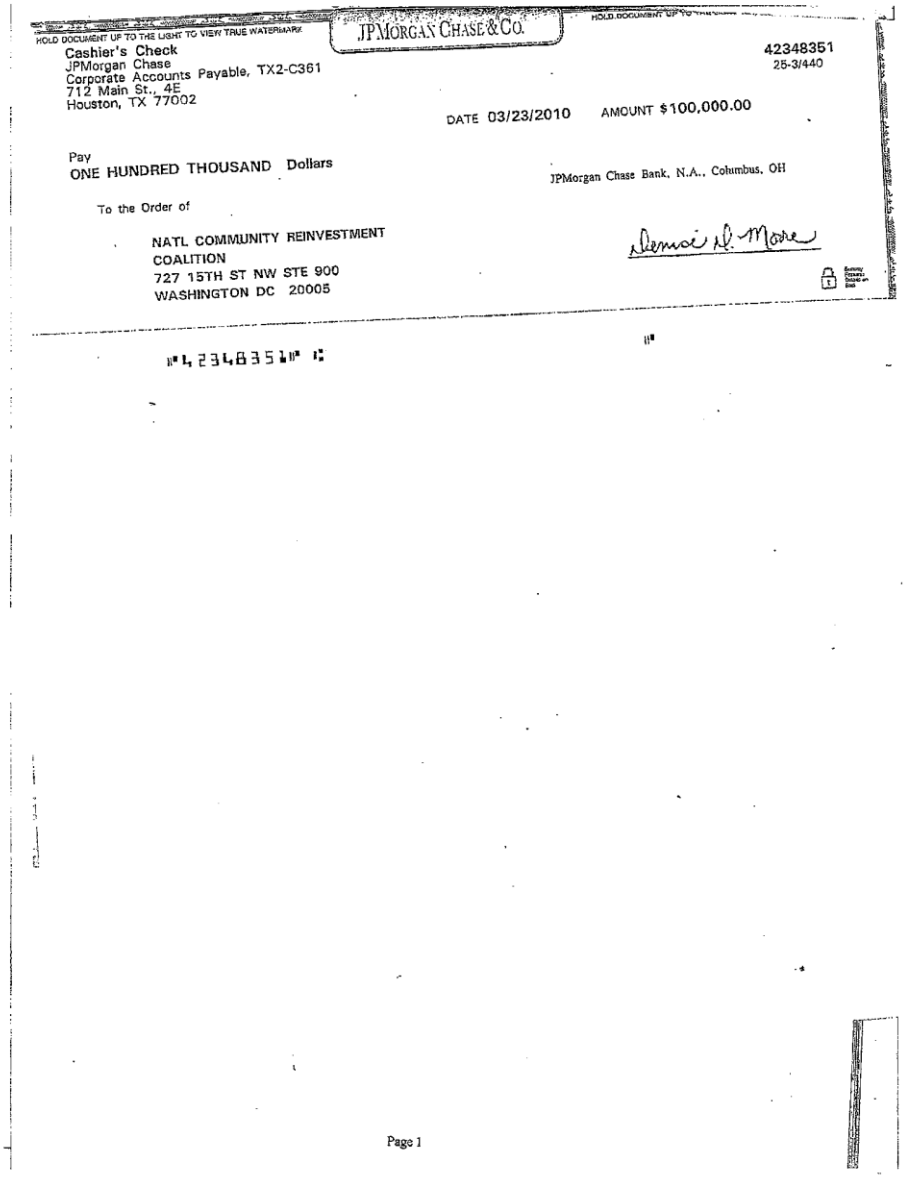
Comment 18 Our conclusion that the grantee violated conflict-of-interest provisions is based not only on its violation of the conflict-of-interest provision in the grant agreement but also on other related provisions as outlined in comment 10. We have updated the finding discussion in the report to explain how the other provisions relate to conflicts of interest.

Comment 19 We are encouraged that the grantee plans to budget for full background checks for its FHIP testers going forward.

Comment 20 The contribution referenced by the grantee is not included in the donations we questioned. As stated in comment 17, the donations we questioned in relation to JP Morgan Chase were provided by the lender and not the foundation (see appendix C).

Appendix C

EXHIBITS SUPPORTING QUESTIONED DONATIONS FROM SELECT LENDERS



HOLD DOCUMENT UP TO THE LIGHT TO VIEW TRUE WATERMARK

JPMORGAN CHASE & CO.

Cashier's Check
JPMorgan Chase
Corporate Accounts Payable, TX2-C361
712 Main St., 4E
Houston, TX 77002

42348351
25-3/440

DATE 03/23/2010 AMOUNT $100,000.00

Pay
ONE HUNDRED THOUSAND Dollars

JPMorgan Chase Bank, N.A., Columbus, OH

To the Order of

NATL COMMUNITY REINVESTMENT
COALITION
727 15TH ST NW STE 900
WASHINGTON DC 20005

Page 1

JPMORGAN CHASE & CO.

August 5, 2009

Check Number: 0001771
Amount Paid: $100,000.00
Request ID: 2444487
Organization ID: 2729405

National Community Reinvestment Coalition, Inc.
727 15th Street, NW, Ste. 900
Washington DC 20005

Mark Rigdon

JPMORGAN CHASE & CO.

Request ID: 2444487
Payment ID: 5616134

0001771
August 5, 2009

PAY TO THE ORDER OF National Community Reinvestment Coalition, Inc.
727 15th Street, NW, Ste. 900
Washington DC 20005

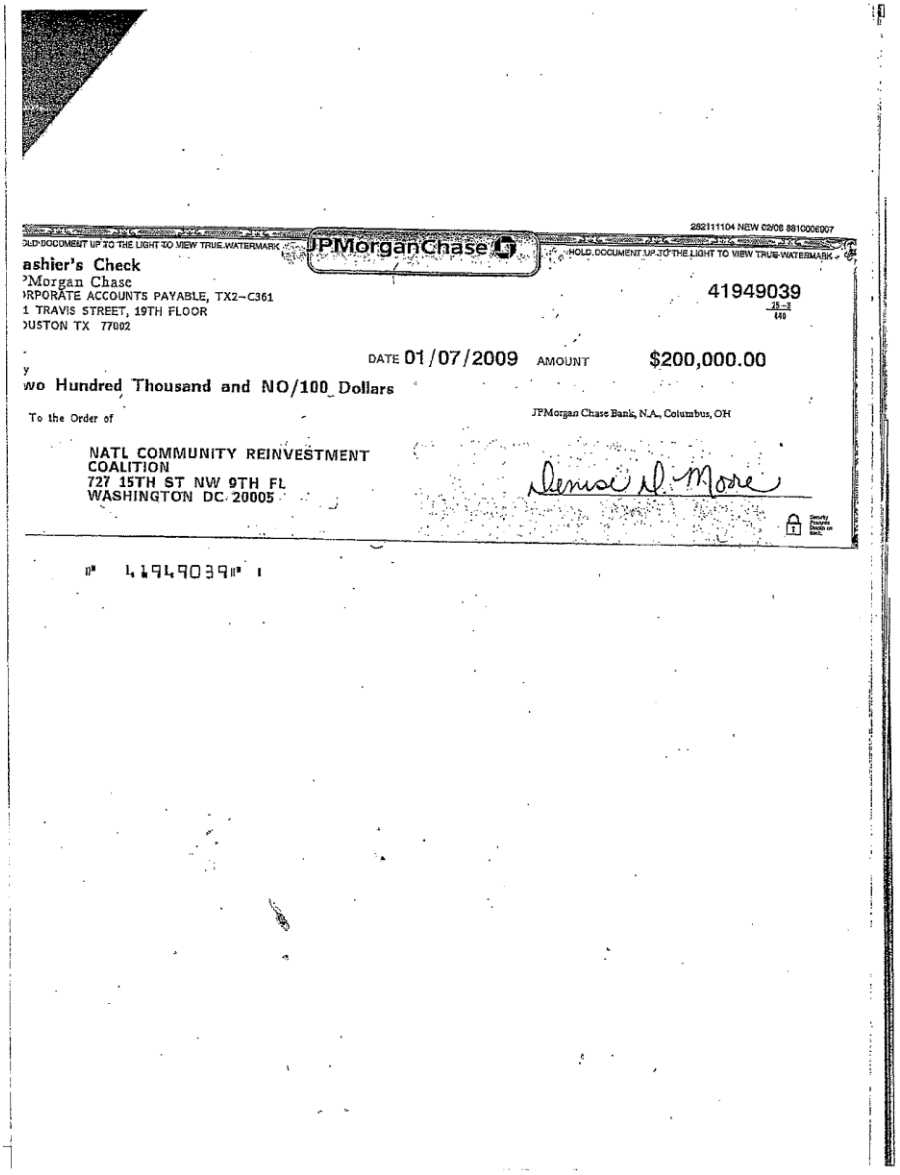
$100,000.00

One Hundred Thousand and xx/100 Dollars

VOID AFTER 180 DAYS

Authorized Signature - Kimberly Davis

⑈0001771⑈



282111104 NEW 02/08 8810006907

OLD-DOCUMENT UP TO THE LIGHT TO VIEW TRUE WATERMARK — JPMorganChase — HOLD DOCUMENT UP TO THE LIGHT TO VIEW TRUE WATERMARK

ashier's Check
Morgan Chase
RPORATE ACCOUNTS PAYABLE, TX2-C361
1 TRAVIS STREET, 19TH FLOOR
OUSTON TX 77002

41949039
25-3
440

DATE 01/07/2009 AMOUNT $200,000.00

wo Hundred Thousand and NO/100 Dollars

To the Order of

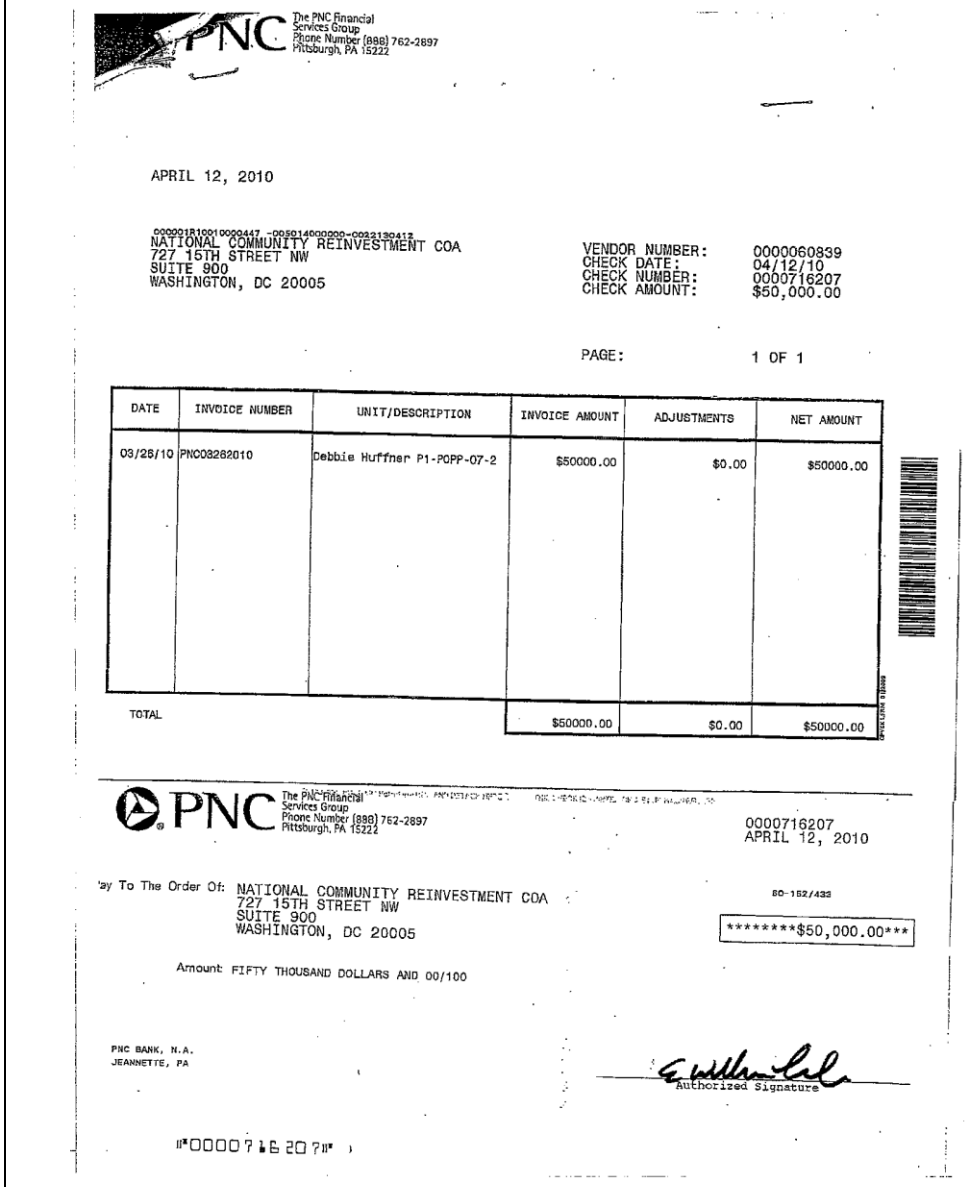
NATL COMMUNITY REINVESTMENT
COALITION
727 15TH ST NW 9TH FL
WASHINGTON DC 20005

JPMorgan Chase Bank, N.A., Columbus, OH

Denise L. Moore

Security Features Details on Back.

⑈ 41949039⑈ ⑆



PNC
The PNC Financial Services Group
Phone Number (888) 762-2897
Pittsburgh, PA 15222

APRIL 12, 2010

000001R1001 0000447 -0050140000000-0022130412
NATIONAL COMMUNITY REINVESTMENT COA
727 15TH STREET NW
SUITE 900
WASHINGTON, DC 20005

VENDOR NUMBER: 0000060839
CHECK DATE: 04/12/10
CHECK NUMBER: 0000716207
CHECK AMOUNT: $50,000.00

PAGE: 1 OF 1

DATE	INVOICE NUMBER	UNIT/DESCRIPTION	INVOICE AMOUNT	ADJUSTMENTS	NET AMOUNT
03/26/10	PNC03262010	Debbie Huffner P1-POPP-07-2	$50000.00	$0.00	$50000.00
TOTAL			$50000.00	$0.00	$50000.00

PNC
The PNC Financial Services Group
Phone Number (888) 762-2897
Pittsburgh, PA 15222

0000716207
APRIL 12, 2010

Pay To The Order Of: NATIONAL COMMUNITY REINVESTMENT COA
727 15TH STREET NW
SUITE 900
WASHINGTON, DC 20005

80-152/433

********$50,000.00***

Amount: FIFTY THOUSAND DOLLARS AND 00/100

PNC BANK, N.A.
JEANNETTE, PA

Authorized Signature

⑈0000716207⑈