



Office of Finance and Budget, Washington, DC

HUD's Oversight of FHA Refunds

**Office of Audit
Los Angeles, CA**

**Audit Report Number: 2022-LA-0001
January 7, 2022**





OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: Susan A. Betts
Deputy Assistant Secretary for Finance and Budget, HW

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: HUD Did Not Have Adequate Controls in Place to Track, Monitor, and Issue
FHA Refunds Owed to Homeowners

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Federal Housing Administration (FHA) refund program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Tanya Schulze, Audit Director, at (213) 534-2471.

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Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of Federal Housing Administration (FHA) refunds based on a hotline complaint alleging that HUD was trying to make it difficult for claimants to obtain refunds or discourage them from pursuing the refunds, which are due to eligible homeowners from the unearned portion of the upfront mortgage insurance premium paid. Specifically, the complaint alleged that (1) refunds were not processed in a timely manner, (2) designations of counsel were not honored, (3) waiver or assignment of refunds was not honored, (4) unnecessary documents were requested, and (5) privacy rights were violated. Our audit objective was to determine whether HUD appropriately tracked, monitored, and issued FHA refunds due to homeowners of terminated loans.

HUD Did Not Have Adequate Controls in Place to Track, Monitor, and Issue FHA Refunds Owed to Homeowners

What We Found

The allegations from the hotline complaint submitted to the HUD Office of Inspector General had some merit. Also, HUD did not have adequate controls in place to ensure that refunds were appropriately tracked, monitored, and issued. Specifically, HUD (1) did not ensure that the homeowner information for at least 23,579 loans with unpaid refunds totaling approximately \$15.8 million was included in its public listing of unpaid refunds, (2) did not adequately track the status of refunds, (3) lacked policies and procedures for various stages of the refund process, (4) did not fully implement procedures it developed requiring additional documents from homeowners, and (5) did not follow the requirements of the Paperwork Reduction Act. This condition occurred because HUD did not emphasize reviewing or monitoring the refund process to identify weaknesses and focused primarily on sending refund applications and issuing refunds to homeowners who returned the applications. As a result, HUD could not ensure that it implemented a consistent refund process, and homeowners and third-party tracers were not able to search for all refunds HUD owed, which may have reduced the chance for homeowners for at least 23,579 loans to obtain approximately \$15.8 million in refunds.

What We Recommend

We recommend that the Deputy Assistant Secretary for Finance and Budget (1) develop and implement written policies and procedures and controls for the refund process to address the deficiencies identified, (2) develop, and implement policies and procedures for locating homeowners, a standard timeframe for mailing refund applications, and verifying the termination date, (3) research, develop, and implement policies and procedures to reduce the number of refunds that have remained unclaimed for an extended period, (4) develop and implement controls for the designation of legal representation for applicants, (5) ensure that the requirements that were developed for additional documents for identification are fully implemented, and (6) obtain approval under the Paperwork Reduction Act for the insert document mailed with the refund application and the Tracer Found Case form.

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Background and Objectives

The U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) provides mortgage insurance on loans made by FHA-approved lenders. Under the program, FHA mortgage insurance provides lenders with protection against losses if a property owner defaults on his or her mortgage.

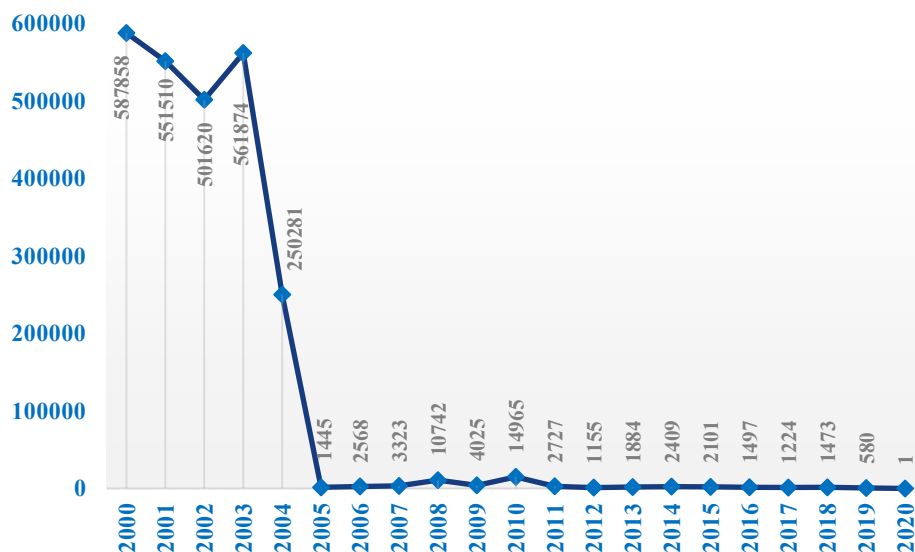
The monthly mortgage insurance premiums (MIP) it collects from borrowers via lenders are used to operate the program. Most FHA mortgage insurance programs also require the payment of an upfront mortgage insurance premium (UFMIP), which may be financed into the mortgage. When insurance is terminated, eligible homeowners are due an FHA refund for the unearned portion of the UFMIP paid. Table 1 below details mortgagee letters that further revised FHA refund guidance.

Table 1 – Mortgagee letters relevant to FHA refunds

1993-36	Changed the procedures calculating the unearned premium from a percentage of the original mortgage amount and the period of insurance to a percentage of the initial MIP paid. Also, established a revised 7-year refund schedule to determine FHA refunds due to homeowners.
2000-46	Shortened the refund schedule period from 7 to 5 years for loans closed on or after January 1, 2001. [Note: On its website, HUD states that for any FHA-insured loans with a closing date before January 1, 2001, and endorsed before December 8, 2004, no refund is due to the homeowner after the end of the seventh year of insurance. For any FHA-insured loans closed on or after January 1, 2001, and endorsed before December 8, 2004, no refund is due to the homeowner after the fifth year of insurance.]
2005-03	Eliminated FHA refunds except when a homeowner refinanced to another FHA loan for loans endorsed on or after December 8, 2004. Also, shortened the refund schedule period from 5 to 3 years. [Note: On its website, HUD states that for FHA-insured loans endorsed on or after December 8, 2004, no refund is due to the homeowner unless (1) he or she refinanced to a new FHA-insured loan and (2) the homeowner refinanced within the first 3 years of insurance.]

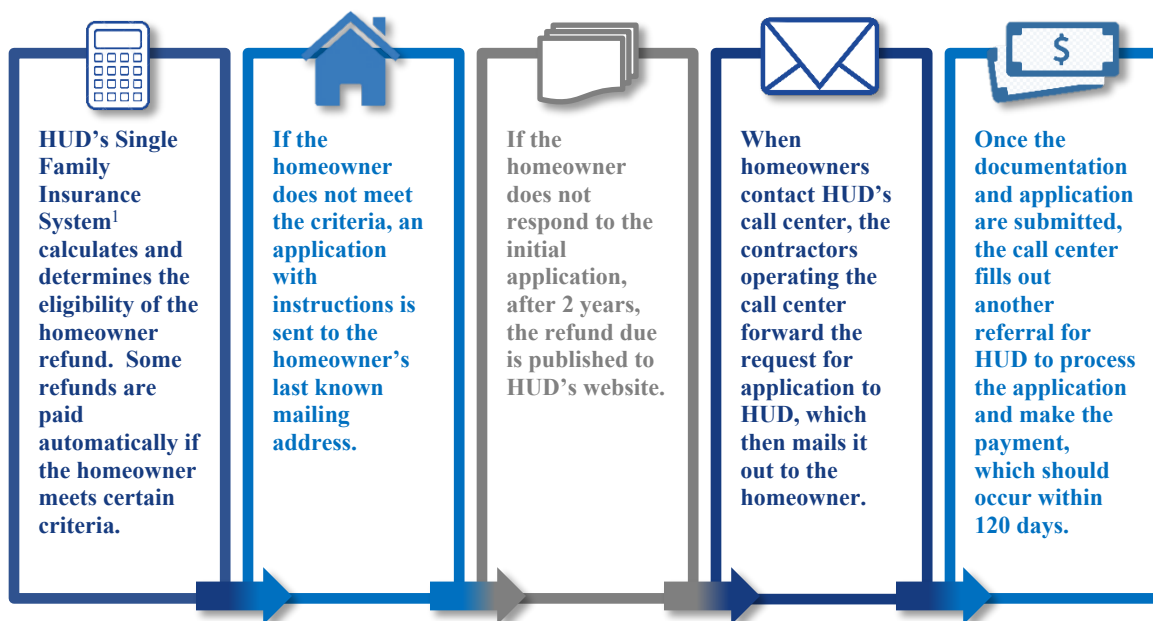
Due to the changes in FHA guidance on loans that are eligible for a refund, the number of new refunds owed has dropped over time. However, many refunds remain unclaimed. According to HUD's data, the total unpaid refund amount was \$384.7 million as of June 16, 2020. The chart below shows the number of eligible refunds from year 2000 to year 2020.

Chart 1 – Number of eligible FHA refunds by year



The process for paying refunds due to homeowners is managed under HUD’s Single Family Insurance Operations Division (SFIOD). Figure 1 below details the refund process. HUD uses a call center contractor, which homeowners can contact to get answers to their questions.

Figure 1 – FHA refund process



¹ The Single Family Insurance System is a HUD application that maintains the insurance-in-force database and contains detailed case information on FHA-insured single-family properties.

When refunds due are published to HUD's website,² homeowners can search for whether they are owed a refund. Third-party tracers³ also use this information to try to locate homeowners. When a tracer finds a homeowner who is entitled to a refund, the tracer assists the homeowner in obtaining the refund from HUD. In return, the tracer is paid a fee by the homeowner, which is usually a percentage of the refund amount.

A hotline complaint was submitted to the HUD Office of Inspector General (OIG) that alleged HUD was trying to make it difficult for claimants to obtain refunds or discourage them from pursuing refunds. The allegations had some merit and our findings are included in the audit report.

Our audit objective was to determine whether HUD appropriately tracked, monitored, and issued FHA refunds due to homeowners of terminated loans.

² https://www.hud.gov/program_offices/administration/foia/fharefundstate

³ Third-party tracers are an independent business enterprise.

Results of Audit

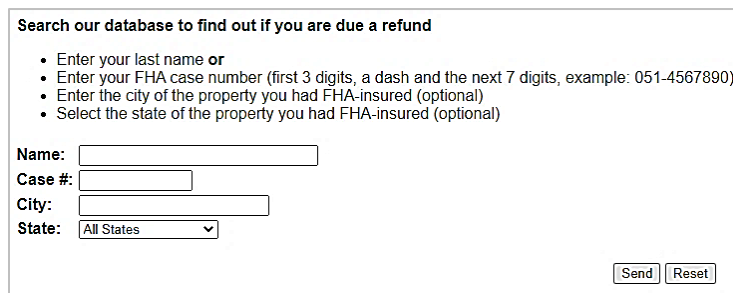
Finding: HUD Did Not Have Adequate Controls in Place to Track, Monitor, and Issue FHA Refunds Owed to Homeowners

HUD did not have adequate controls in place to ensure that refunds were tracked, monitored, and issued to homeowners of terminated loans. Specifically, HUD (1) did not ensure that the homeowner information for at least 23,579 loans with unpaid refunds totaling approximately \$15.8 million was included in its public listing of unpaid refunds, (2) did not adequately track the status of refunds, (3) lacked policies and procedures for various stages of the refund process, (4) did not fully implement its procedures requiring additional documents from homeowners, and (5) did not follow the requirements of the Paperwork Reduction Act. This condition occurred because HUD did not place an emphasis on reviewing or monitoring the refund process to identify weaknesses and instead focused primarily on sending refund applications and issuing refunds to homeowners who returned the applications. Without an overall monitoring plan in place, HUD was not aware of the issues identified in the audit report. As a result, HUD could not ensure that it implemented a consistent refund process, and homeowners and third-party tracers were not able to search for all refunds HUD owed. This deficiency may have reduced the chance for homeowners for at least 23,579 loans to obtain approximately \$15.8 million in refunds.

At Least 23,579 Loans With Refunds Owed Totaling Approximately \$15.8 Million Were Not Included on HUD’s Website

HUD did not include homeowner information on its public refund website for at least 23,579 loans with refunds owed totaling approximately \$15.8 million (an average refund amount of \$670 per loan). HUD attempts to contact homeowners who are due refunds, but when it is unable to locate them after 2 years, it releases the homeowner case information for the remaining unpaid refunds to the public on its website under the Freedom of Information Act of 1986 (figure 3 below). The website is used by homeowners to determine whether they are owed a refund (figure 2 below). Tracers, who are third parties independent from HUD, can also use this information to try to locate homeowners who are due a refund and assist them with the application process for a fee paid by the homeowners.

Figure 2 – HUD refund website (<https://entp.hud.gov/dsrs/refunds/>)



The screenshot shows a search form titled "Search our database to find out if you are due a refund". It includes a list of instructions: "Enter your last name or", "Enter your FHA case number (first 3 digits, a dash and the next 7 digits, example: 051-4567890).", "Enter the city of the property you had FHA-insured (optional)", and "Select the state of the property you had FHA-insured (optional)". Below these instructions are input fields for "Name:", "Case #:", "City:", and "State:" (with a dropdown menu currently set to "All States"). At the bottom right of the form are "Send" and "Reset" buttons.

Figure 3 – HUD refund public database files
(https://www.hud.gov/program_offices/administration/foia/fharefundstate)

MORTGAGE INSURANCE LIST SELECTION PAGE

The individuals listed in these files are entitled to either of two types of payments: (1) a distributive share payment or (2) an Upfront Mortgage Insurance Premium (UFMIP) refund. HUD attempts to contact mortgagors who are due refunds; however, HUD was unable to locate these individuals who are due payments. After a **2-year location cycle**, information on cases remaining unpaid is made available for release to the public under the Freedom of Information Act (FOIA) of 1986, as amended.

The files include:

- mortgages which were paid off from 1977 through **2 years ago**
- mortgagor name, property address (multiple records if more than one mortgagor)
- address of last known residence of payee
- name and address if check was issued and returned
- amount owed mortgagor
- pertinent dates associated with terminated case

For additional information or to search the HUD refund database, visit [Does HUD Owe You a Refund?](#)

Information on un-located mortgagors is updated monthly and may contain cases for which payments are being processed or which have been paid since the creation of the list.

The current files contain all unpaid cases through **September 30, 2018**.

The homeowner information for the 23,579 loans not included on HUD’s website were identified based on a limited review of 10 States to determine whether the website properly included all refunds that met the requirements to be listed.⁴ These loans met HUD’s requirements to be released publicly on its website because they had refunds owed that remained unpaid for a minimum of 2 years and had no activities, such as correspondence, in the previous 1-year period.

During the audit, HUD reviewed some of the homeowner information for the loans that were not included on the website and agreed that the loans were improperly excluded. HUD stated that it would work with its contractor to identify other similar homeowners who were improperly excluded.

Our review of the 23 loans identified in the hotline complaint showed that homeowners for 5 of the loans were not included on HUD’s public refund website. As stated above, homeowners are not eligible to be listed on the public refund website if the refunds owed remained unpaid for less than 2 years and if there has been correspondence with HUD in the previous 1-year period. In addition, when there are multiple homeowners on a loan, the refund amount is divided, and a separate refund is owed to each homeowner. Therefore, each homeowner needs to individually request a refund application. The 5 loans had multiple homeowners (2-3 homeowners for each loan). For these 5 loans, only 1 of the homeowners on each of the loans had requested the refund application. However, HUD inappropriately sent refund applications to all homeowners who were on the loan, and sent all refund applications to the address provided by the sole homeowner requesting the refund.⁵ Consequently, the homeowners who did not request the refund applications should not have been removed from the public refund website because they

⁴ The 10 states reviewed had a total of 405,188 unpaid refunds in HUD’s Distributive Share and Refund Subsystem. See the Scope and Methodology for how the unpaid loans were selected for review.

⁵ The 5 loans had refunds owed that remained unpaid for a minimum of 2 years.

had not sought correspondence with HUD and HUD had only the current mailing address for the homeowner who requested the refund application. In addition, for the refunds that are not automatically paid after loan termination, HUD's standard operating procedures state that a refund application is automatically generated and sent to the homeowners last known mailing address. However, HUD did not always send the refund application to all homeowners after loans terminated when there were more than two homeowners on the loans. For example, if there were 3 homeowners for a loan, HUD sent the refund application to only 2 of the 3 homeowners.

HUD Lacked a Tracking and Monitoring System for Refunds

HUD did not have a system or reports to track and monitor the progress of refunds without reviewing the status of loans individually. Instead, each refund case was tracked only by the analyst assigned to it. The lack of a formal tracking and monitoring framework hindered management and audit review. For example, HUD was not able to provide a report to show the processing timeframe for refunds and was also not able to support that there was no backlog of refunds in process.

While HUD's standard operating procedures state that it has up to 120 days to process refund requests,⁶ HUD stated that it took only 1 day to process a refund request if all required documentation was submitted. However, our review of 23 loans from the hotline complaint showed that it took on average 41 days to process the refund requests. For four of these loans, HUD took more than 60 days to process the refund request, even though we did not identify any instances in which required documentation was missing or HUD attempted to contact the homeowner for missing documents.

Also, HUD did not have reports available to (1) monitor compliance with its procedures, (2) determine outstanding refund requests, or (3) identify issues that delayed the processing of refunds. However, we determined that HUD's Distributive Shares and Refunds Subsystem (DSRS)⁷ contained data, such as the date refund applications were received and the date refunds were paid, that could be used by HUD to track and monitor the status and progress of refunds.

HUD Lacked Policies and Procedures

HUD did not have written policies and procedures for the following areas:

- Locating homeowners – Although HUD did attempt to locate some homeowners who had unpaid refunds, there were no written procedures or methodology that described how HUD selected homeowners to research and attempt to contact.
- Timeframe to mail refund applications – HUD's standard operating procedures did not include specific requirements regarding the timeframe for mailing refund applications to homeowners after the request was received. The procedures stated only that it generally

⁶ See appendix B for criteria.

⁷ DSRS is a HUD system that processes terminated and matured refund loans and determines the eligibility for mortgage insurance premium refunds.

took up to 14 business days for applicants to receive the refund application once it was generated.⁸ However, the date on which HUD generated the application may not always have been the date on which HUD received the application request from homeowners if there was a delay in generating the refund application. Our review of 23 loans from the hotline complaint determined that 11 loans took 20 or more calendar days (from 20 to 220 days) for HUD to mail the refund application after it was requested.⁹

- Verification of the termination date – HUD did not have written procedures concerning verification of the termination date. When refunds due to homeowners were not processed automatically after loans were terminated, the homeowners were required to submit a copy of the deed at termination or a letter from the lender showing that the mortgage was paid in full. However, HUD did not use the termination date from the supporting documents when it calculated the refund amount. Instead, HUD used the termination date from the Single Family Insurance System (SFIS)¹⁰ that was reported by lenders. Our review of 23 loans from the hotline complaint determined that the termination date provided by homeowners did not match the termination date reported in SFIS for 17 loans. This deficiency resulted in 16 refunds that were overpaid by a total of \$751 and 1 refund that was underpaid by \$38.
- Aged refunds – HUD did not have a statute of limitations, similar to the 6-year limit for distributive shares,¹¹ for refunds that remained unclaimed. As of June 16, 2020, there were 754,730 loans with refunds that remained unclaimed, and 200,576 of these terminated more than 20 years ago. However, even with HUD and tracers attempting to locate homeowners, these refunds remained unclaimed, earning interest. The likelihood of homeowners submitting a request for these older refunds is low. The chart below shows the number of unclaimed refunds by the loan termination year.

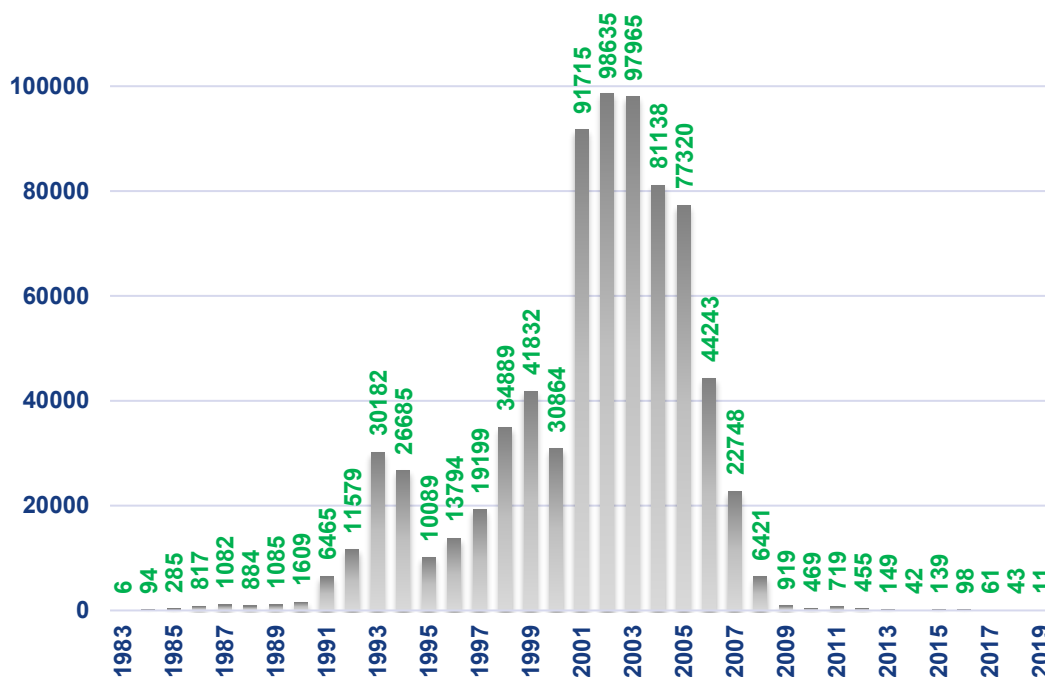
⁸ See appendix B for criteria.

⁹ The referral date from the contractor operating the call center to HUD was used as the date on which the refund application was requested by the homeowner.

¹⁰ SFIS is a HUD application that maintains the insurance-in-force database and contains detailed case information on FHA-insured single-family properties.

¹¹ Distributive shares are excess earnings from the Mutual Mortgage Insurance Fund for homeowners who had loans originated before September 1, 1983, paid on the loan for more than 7 years, and had their FHA insurance terminated before November 5, 1990.

Chart 2 – Unclaimed and unpaid refunds by year



- Designations of counsel – HUD had written procedures for tracers which includes the instructions for submitting information to HUD. The procedures state that it is HUD’s policy to deal directly with the homeowner regarding the refund. However, HUD did not have written procedures for handling tracers who were also attorneys hired to legally represent the homeowner. Instead, HUD’s policy was only that it did not deal directly with tracers and would not provide updates regarding their client’s refund status.

HUD Did Not Fully Implement Procedures It Developed Requiring Additional Documents From Homeowners

HUD did not fully implement its standard operating procedures it developed requiring additional documents from homeowners to process refunds until after the audit started. HUD’s standard operating procedures and its FHA refund website required homeowners to provide two forms of identification, Social Security number verification, and two forms of verification for the current mailing address.¹² These requirements were developed by HUD as a result of a review by the OIG Office of Investigation (dated October 18, 2017), which identified instances of fraud in which refunds were sent to individuals who were not the homeowner. However, HUD did not fully implement these procedures until after the audit started and our review of the 23 loans had already been completed. While HUD’s standard operating procedures and its FHA refund website listed the required documents, HUD officials stated that it did not require the additional documents to process refunds because the refund application had not been updated to list these

¹² See appendix B for criteria.

documents.¹³ Our review of 23 loans from the hotline complaint determined that 21 were paid and all were issued without all required documentation.

Further, the contractor operating the call center only requested some of the additional documents, such as only one form of identification, for only 10 of the 23 loans. When it did request additional documents from homeowners, there was no consistency in the types of documents that were requested. For example, in some cases, only the photo identification was requested, and in other cases, the photo identification and Social Security number verification were requested.

During the audit, HUD implemented the requirement for the additional documents in April 2020 and stated that all documents would be required from homeowners to process a refund. This was done through an insert document that was mailed with the refund application.

HUD Did Not Comply With the Paperwork Reduction Act

The Paperwork Reduction Act requires approval from the Office of Management and Budget when a collection of information (1) involves individuals or businesses, (2) requests information from 10 or more people over a 12-month period, and (3) asks for information for application of benefits. Although HUD stated that it implemented the new additional documentation requirement in April 2020, as discussed above, it did not put the new insert documentation mailed with refund applications through the Paperwork Reduction Act approval process. In addition, HUD's Tracer Found Case form collected information from tracers to obtain updated homeowner contact information, but the form also did not go through the Paperwork Reduction Act approval process.

HUD Did Not Place an Emphasis on Reviewing or Monitoring the Refund Process

HUD did not place an emphasis on reviewing or monitoring the refund process to identify weaknesses. Specifically, HUD did not have any monitoring reports available to verify the completeness of the homeowner information on its public refund website or track the status of refunds. HUD instead focused primarily on sending refund applications and issuing refunds to homeowners who returned the applications. HUD also focused on locating homeowners who had unpaid refunds. However, HUD officials acknowledged the number of eligible refunds had dropped over time due to changes in guidance and that improvements are needed for tracking refunds. Therefore, HUD should place more emphasis on reviewing and monitoring the refund process to address the issues identified in the audit report.

Conclusion

HUD did not have adequate controls over the FHA refund process to ensure that (1) the homeowner information was included on HUD's website for at least 23,579 loans with unpaid refunds totaling approximately \$15.8 million, (2) the status of refunds was tracked, (3) it had policies and procedures for various stages of the refund process, (4) did not fully implement procedures it developed requiring additional documents from homeowners, and (5) it complied

¹³ Before the procedures were implemented, the contractor operating the call center requested the additional documents from homeowners. However, HUD verbally instructed the contractor not to hold a refund application referral to HUD if the additional documents were not provided.

with the Paperwork Reduction Act. This condition occurred because HUD did not place an emphasis on the monitoring of refunds and instead focused primarily on trying to locate homeowners and process refund applications. As a result, homeowners and tracers were not able to search for all refunds owed, and HUD could not ensure that it implemented a consistent refund process.

Recommendations

We recommend that the Deputy Assistant Secretary for Finance and Budget

- 1A. Develop and implement written policies and procedures and controls for the FHA refund process to address the deficiencies identified in the audit report. These should include (1) controls to ensure that the website for the public listing of all unpaid refunds is complete, (2) controls to ensure that refund applications are sent only to the homeowners who requested them, (3) controls to ensure that refund applications are sent to all homeowners on the loan after loan termination, and (4) a formal monitoring framework for tracking the status of refunds.
- 1B. Develop and implement written policies and procedures (1) for locating homeowners who have unpaid refunds (for both existing and new refunds), (2) to establish a standard timeframe for mailing refund applications to homeowners after they are requested, and (3) to establish requirements for verifying the termination date based on supporting documents provided by homeowners.
- 1C. Research, develop, and implement policies and procedures to reduce the number of refunds that have remained unclaimed for an extended period, including consideration of a statute of limitations.
- 1D. Develop and implement written policies and procedures regarding the designation of legal representation for applicants.
- 1E. Obtain the required approvals under the Paperwork Reduction Act for the insert document mailed with the refund application and the Tracer Found Case form.

Scope and Methodology

We performed our audit fieldwork from December 2019 to October 2020 remotely at the OIG Office of Audit in Phoenix, AZ. Our audit period generally covered December 2015 to November 2019.

To accomplish our objective, we

- Reviewed hotline complaints and relevant supporting documents.
- Reviewed applicable requirements for the FHA refund program and the Paperwork Reduction Act.
- Reviewed HUD’s policies and procedures for the FHA refund program.
- Interviewed appropriate management and staff from SFIOD and the contractor operating the call center.
- Obtained and reviewed data from HUD systems (Single Family Data Warehouse (SFDW), SFIS, and DSRS).¹⁴
- Reviewed HUD’s public listing of all unpaid refunds on its FHA refund website.
- Selected and reviewed a sample of 60 FHA loans. The sample included 24 loans identified from two hotline complaints; however, 23 of the loans were from the hotline complaint that initiated the audit.
- Obtained and reviewed source documents for the refund files, when available, including the refund application and documents provided by homeowners.

To determine if HUD appropriately tracked, monitored, and issued refunds, we obtained data for all loans with a refund amount from HUD’s DSRS. There were 13,692 loans with refunds totaling approximately \$17.0 million¹⁵ from December 2015 to November 2019.¹⁶ From these data, we selected a nonstatistical sample of 24 loans with refunds totaling \$25,763 based on (1) potential overpayments based on data from DSRS¹⁷ (18 loans) and (2) a difference in the refund

¹⁴ SFDW is a large collection of database tables dedicated to supporting analysis, verification, and publication of FHA single-family data.

¹⁵ The total includes all loans with a refund amount due whether it was paid or unpaid.

¹⁶ The 24 loans received from complaints were included in the sample but were outside the audit period of December 2015 to November 2019.

¹⁷ We identified some loans that appeared to be potential overpayments because the amount paid was greater than the refund amount due.

amounts between SFDW and DSRS (6 loans). We also selected 36 loans with refunds totaling \$45,093 based on (1) complaints received (24 loans), (2) loans with no refund amount but appeared to be eligible for a refund from the data in SFDW (7 loans), and (3) loans with a claim status but that had a refund paid (5 loans).¹⁸ The population of refunds was too large to review a 100 percent selection or a representative selection. Because we chose a nonstatistical sample, the results were not projected to the portion of the population that was not tested.

To determine if all unpaid loans in DSRS were included on HUD's public refund website, we reviewed the unpaid loans from DSRS and compared the loans to HUD's website. There were 758,044 unpaid loans in DSRS with refunds unpaid totaling approximately \$371.7 million as of December 18, 2019. These 758,044 unpaid loans met HUD's requirements to be released publicly on its website because they (1) had refunds that remained unpaid for a minimum of 2 years and (2) had no activities, such as correspondence, in the previous 1 year period. A nonstatistical sample of unpaid loans for 10 States was selected for review. HUD's public refund website contained file downloads based on each individual State and the 10 States were selected because they had a higher number of unpaid loans. These 10 States had 397,091 unpaid loans in DSRS with refunds totaling approximately \$219.4 million that met HUD's requirements to be released publicly on its website. Using the case number for each loan, all of the unpaid loans were compared to the unpaid loans listed on HUD's public refund website to determine if they were included. As noted in the finding, there were 23,579 loans with refunds owed totaling approximately \$15.8 million that were not included on the website.

While we did rely on the data from HUD's systems (DSRS and SFDW) to identify the universe of refunds and selected loans for the sample, when available, we used the source documents from the refund files to determine whether the refunds were appropriately issued. Therefore, we did not rely on computer-processed data to reach our conclusions and did not assess the reliability of the data from HUD's systems.

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

¹⁸ The 24 loans selected based on complaints received were from 2 hotline complaints; however, 23 of the loans were from the hotline complaint that initiated the audit. Also, these 23 loans identified from the hotline complaint were the only loans included in the finding because the other loans reviewed either had no issues or the issues were not material.

Internal Controls

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Controls intended to ensure that HUD appropriately tracks, monitors, and issues refunds.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- HUD did not have adequate controls in place to ensure that refunds were appropriately tracked, monitored, and issued (finding).

Followup on Prior Audits

Interim Audit Memorandum 2021-LA-0802 – The HUD Single Family Insurance Operations Division Should Take Additional Action To Inform Homeowners of Changes to Its FHA Refund Process Resulting From the COVID-19 Pandemic

HUD OIG issued an interim audit memorandum on December 2, 2020, regarding how COVID-19 affected the policies, procedures, and distribution of FHA refunds. The audit found that COVID-19 generally did not affect HUD's FHA refund policies and procedures; however, HUD did not fully notify homeowners of operational changes to its physical mail procedures, which potentially impacted its distribution of refunds. Specifically, HUD did not

- update instructions mailed to the homeowners with the application for refund;
- adequately update its FHA refund websites;
- ensure that the link on its Does HUD Owe You a Refund webpage sent the user to the updated FHA Homeowners Fact Sheet webpage for refunds;
- ensure that its call center contractor adequately and correctly updated its automated voice message, which included an incorrect email address; or
- ensure that its call center had developed a written script for initial followup calls to ensure that all homeowners were notified of the change to the process in the same manner.

In addition, HUD did not perform a privacy impact assessment for the operational change that resulted in the inclusion of personally identifiable information (PII) via email.

HUD agreed with the recommendations addressed to the Deputy Assistant Secretary for Finance and Budget. Recommendation 1A was closed concurrent with the issuance of the interim audit memorandum because HUD took corrective action before the memorandum was issued. Recommendations 1B and 1C were closed on March 22, 2021 and October 25, 2021, respectively, as a result of HUD's corrective action.

- 1A. Adequately notify homeowners that, due to COVID-19, all FHA refund applications and supporting documents should be sent electronically to avoid delay in processing. This process should include (1) developing and expediting implementation of correspondence sent to homeowners with the application; (2) a notice of operational changes on HUD's FHA refunds websites; (3) ensuring that HUD's Does HUD Owe You a Refund website is updated to the most recent FHA Homeowners Fact Sheet; (4) an updated voice message from the call center including an accurate email; and (5)

developing an updated script for call center agents for the initial contact with the homeowner, followup, and contact with homeowners who already submitted their application by mail.

- 1B. Conduct a privacy impact assessment for accepting homeowner FHA refund applications and supporting documentation that contain PII electronically to identify potential risks and develop and implement plans to mitigate those risks.
- 1C. Develop and implement written policies and procedures for SFIOD to quickly respond to emergency situations when staff cannot return to the office. Procedures should include steps to quickly notify homeowners of any changes made to the FHA refund process.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

FROM: **SUSAN BETTS** Digitally signed by SUSAN BETTS
Susan A. Betts, Deputy Assistant Secretary for Finance and Date: 2021.11.19 14:25:24 -0500
Budget, HW

SUBJECT: Response to Draft Audit Report – HUD Did Not Have Adequate Controls In Place To Track, Monitor, and Issue FHA Refunds Owed to Homeowners

Comment 1

Thank you for providing the Office of Finance and Budget the opportunity to comment on the Office of Inspector General's (OIG) draft audit report entitled "HUD Did Not Have Adequate Controls in Place to Track, Monitor, and Issue FHA Refunds Owed to Homeowners." We look forward to working with you to implement these improvements.

Please find our comments and suggestions to the OIG recommendations below:

OIG Recommendation 1A: Develop and implement written policies and procedures and controls for the FHA refund process to address the deficiencies identified in the audit report. These should include (1) controls to ensure that the website for the public listing of all unpaid refunds is complete, (2) controls to ensure that refund applications are sent only to the homeowners who requested them, (3) controls to ensure that refund applications are sent to all homeowners on the loan after loan termination, and (4) a formal monitoring framework for tracking the status of the refunds.

Comment 2

Response: We agree with the recommendations to include (1) controls to ensure that the website for the public listing of all unpaid refunds is complete, (3) controls to ensure that refund applications are sent to all homeowners on the loan after loan termination, and (4) a formal monitoring framework for tracking the status of the refunds. However, we disagree with the recommendation to only send applications to homeowners who request them, as we believe we should be sending applications to any eligible homeowner.

Comment 1

OIG Recommendation 1B: Develop and implement written policies and procedures (1) for locating homeowners who have unpaid refunds (for both existing and new refunds), (2) to establish a standard timeframe for mailing refund applications to homeowners after they are requested, and (3) to establish requirements for verifying the termination date based on supporting documents provided by homeowners.

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**Ref to OIG
Evaluation**

2

Comment 1

Response: We agree to develop and implement written policies and procedures (1) for locating homeowners who have unpaid refunds (for both existing and new refunds), (2) to establish a standard timeframe for mailing refund applications to homeowners after they are requested, and (3) to establish requirements for verifying the termination date based on supporting documents provided by homeowners.

OIG Recommendation 1C: Research, develop, and implement policies and procedures to reduce the number of refunds have remained unclaimed for an extended period, including consideration of a statute of limitations.

Response: We agree with the recommendation to research, develop, and implement policies and procedures to reduce the number of refunds that have remained unclaimed for an extended period, including consideration of a statute of limitations.

Comment 1

OIG Recommendation 1D: Develop and implement written policies and procedures regarding the designation of legal representation for applicants.

Response: We agree to update policies and procedures based on a previous settlement regarding the designation of legal representation for applicants.

Comment 3

OIG Recommendation 1E: Ensure that the requirements that were developed for additional documents for identification from homeowners are fully implemented.

Response: We have fully implemented these requirements as of April 2020 and request closure of this recommendation.

Comment 4

OIG Recommendation 1F: Obtain the required approvals under the Paperwork Reduction Act for the insert document mailed with the refund application and the Tracer Found Case form.

Response: We will work with the respective offices to receive the required approvals on any documents used to collect updated information for homeowners.

OIG Evaluation of Auditee Comments

- Comment 1 HUD's response generally indicated agreement with the audit report recommendations. Specifically, HUD indicated agreement with recommendations 1B, 1C, 1D, and 1F. HUD disagreed with part of recommendation 1A (discussed in comment 2 below) and also requested the closure of recommendation 1E (discussed in comment 3 below). We appreciate HUD's cooperation during the audit and look forward to continued cooperation during the audit resolution process.
- Comment 2 HUD disagreed with part of recommendation 1A to only send applications to homeowners who request them, instead stating it should be sending applications to any eligible homeowner. During the exit conference, HUD stated it changed its procedures to not remove homeowners from the public refund website after the refund application is sent. We do not take issue with HUD's statement that they should send refund applications to any eligible homeowner. The recommendation remains unchanged and we will review the written policies and procedures during the audit resolution process for changes to how HUD mails out refund applications and not removing homeowners from the public refund website.
- Comment 3 HUD stated it has fully implemented the requirements for additional documentation as of April 2020 for recommendation 1E. We agree that the requirements for additional documents for identification was fully implemented and therefore, we removed the recommendation from the audit report.
- Comment 4 HUD agreed with recommendation 1F (now recommendation 1E) and stated it will work with the respective offices to receive the required approvals on any documents used to collect updated information for homeowners. We note that HUD's response only addressed working with the respective offices to receive the required approvals on documents used to collect updated information for homeowners, which appears to be a reference to the Tracer Found Case form. For clarification, we note that HUD should also receive the required approvals for the insert document mailed with the refund application.

Appendix B

Criteria

24 CFR (Code of Federal Regulations) 203.283 Refund of one-time MIP

- a) The Commissioner shall provide for the refund to the mortgagor of a portion of the unearned MIP paid pursuant to §203.280 if the contract of insurance covering the mortgage is terminated:
 - 1) By conveyance to one other than the Commissioner and a claim for the insurance benefits is not presented for payment (§203.315),
 - 2) By prepayment of the mortgage (§203.316), or
 - 3) By voluntary agreement with the approval of the Commissioner (§203.317).
- b) The Commissioner shall determine the amount of the premium refund by multiplying the amount the premium paid at the time the mortgage was insured by the applicable premium refund percentage for mortgages insured in the year the mortgage was endorsed for insurance. The Commissioner shall determine the applicable premium refund percentage for each year in an equitable manner and in accordance with sound financial and actuarial practice, taking into account:
 - 1) Projected salaries and expenses,
 - 2) Prospective losses generated by insurance claims, and
 - 3) Expected future payments of premium refunds.

Mortgagee Letter 1993-36 Changes in Premium Refund Computations

- This letter transmits changes to the current method used to calculate the amount of unearned premium available for (1) refund to the mortgagor (homeowner) upon prepayment or voluntary termination of the insurance or (2) offsetting against the new MIP when processing FHA to FHA-refinanced mortgages.
- The current procedure calculates the premium refund as a percentage of the original mortgage amount and the period of insurance. In contrast, the new procedure calculates the amount of the premium refund as a percentage of the initial MIP paid on the mortgage being terminated or refinanced and the period of insurance. It is important to note that no premium refund remains at the end of the 7th year of amortization.
- Attachment 2 is a chart showing the revised premium refund factors used in the premium refund calculation.
- These changes will be in effect for all terminations and refinances closed on or after January 1, 1994.

Mortgagee Letter 2000-38 – Further Reduction in UFMIP and Other Mortgage Insurance Premium Changes (Issued October 27, 2000)

Currently, borrowers paying off (or refinancing) their FHA loans within 7 years from the date of closing are entitled to a partial refund of UFMIP paid at closing. The refund schedule is now being shortened for loans closed on or after January 1, 2001, to a 5-year period.

Mortgagee Letter 2000-46 – Additional Details about the Further Reduction in UFMIP and Other Mortgage Insurance Premium Changes (Issued December 20, 2000)

- This mortgagee letter provides additional information, including details on the MIP charges for refinances, and issues the new refund schedule.
- As stated in Mortgagee Letter 00-38, for loans closed on or after January 1, 2001, the unearned premium refund schedule is shortened to a 5-year period. This applies to refinances as well as loans paid in full. The new refund schedule is attached to this mortgagee letter.

Mortgagee Letter 2005-03 – Elimination of Refunds of UFMIP (Issued January 6, 2005)

- Section 223 of the Consolidated Appropriations Act 2005 amended Section 203(c)(2)(A) of the National Housing Act to eliminate refunds of the FHA UFMIP except when the borrower refinances to another mortgage to be insured by FHA.
- This elimination of refunds is effective for those mortgages endorsed for insurance on or after December 8, 2004, the day the President signed the act.
- Also effective with those mortgages endorsed for insurance on or after December 8, the refund schedule for those borrowers who refinance to another FHA-insured mortgage is modified to a 3-year period.

Standard Operating Procedures for A80D-Distributive Shares and Refund Subsystem (DSRS) Processing Homeowner Refunds

- The claimant generally contacts the Call Center to request a refund application if they are eligible for the refund. The Call Center fills out a referral to notify the Disbursements and Customer Service Branch. Once the request is received it is assigned to staff to verify if an FHA refund is available. Staff will verify the current address in DSRS and a Form HUD-27050-B, Application for Premium Refund or Distributive Shares Payment, will be generated and mailed out to the applicant.
- It generally takes up to 14 business days for the applicant to receive the 27050-B once it is generated.
- In order to prevent fraud, HUD now requires the following documents, as provided by OGC [Office of General Counsel]:
 - Identity – The homeowner must present two forms of identification with at least one of the documents from the primary document list.
 - Social Security Number – The homeowner must present one document to prove their Social Security number.
 - Current Address – The homeowner must provide two forms of verification from two different sources to prove their current home address.
 - Name Change Documents (if applicable) – If there have been multiple name changes, the homeowner must provide documentation to prove the continuity of the names.
- After the information has been entered into the system, it is assigned to an analyst to review and authorize for payment processing. The analyst has up to 120 days after receipt of the 27050-B to process the request.

Single Family Premiums Process Narrative Fiscal Year 2020

Section II (Operating Procedures)

- Mortgagors may be eligible for refunds of the unearned portion of the upfront mortgage premiums (UFMIP) paid at closing and the case is non-claim terminated within three, five, or seven years (depending on the loan endorsement or closing date) of the original mortgage terms.
- The lender will submit an electronic termination request to FHA on the mortgagor's behalf for a case to be terminated in the Single Family Insurance System (SFIS) and the disbursements process to commence.
- When a case is terminated, SFIS determines whether the homeowner is eligible to receive a refund of the unearned portion of the UFMIP collected at closing. The total UFMIP paid is multiplied by the mortgage insurance premium (MIP) refund factor. The refund factors depend on the duration of the insurance, beginning on the amortization date and ending on the termination date.

5 CFR part 1320 Controlling Paperwork Burdens to the Public

- The collection of information means the obtaining, causing to be obtained, soliciting, or requiring the disclosure to an agency, third parties or the public of information by or for an agency by means of identical questions posed to, or identical reporting, recordkeeping, or disclosure requirements imposed on, ten or more persons, whether such collection of information is mandatory, voluntary, or required to obtain or retain a benefit.
- Ten or more persons refers to the persons to whom a collection of information is addressed by the agency within any 12-month period.
- An agency shall not conduct or sponsor a collection of information unless, in advance of the adoption or revision of the collection of information,
 - The agency has conducted the review required in §1320.8;
 - OMB [Office of Management and Budget] has approved the proposed collection of information; and
 - The agency has obtained from the Director a control number to be displayed upon the collection of information.

Office of Information and Regulatory Affairs Memorandum, Dated July 22, 2016 – Flexibilities under the Paperwork Reduction Act for Compliance with Information Collection Requirements

- The Paperwork Reduction Act allows agencies to make other types of changes to their information collections without notifying the public. These are called non-substantive changes to an information collection.
- Unlike the de minimis changes, agencies submit, and OMB reviews, documentation for the proposed revisions to an active collection before those revisions may be implemented.
- If the agency is considering significant or substantive revisions to the collection, it must provide the public with an opportunity to comment on the proposed revisions, as it would with a new collection.