



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
451 Seventh Street, SW  
Washington, DC 20410-4500  
Phone: (202) 708-0390 Fax: (202) 708-1354

October 6, 2008

**MEMORANDUM FOR:** [REDACTED]

**FROM:** [REDACTED]

**SUBJECT:** Proposal to amend HUD Handbook 4000.4 REV-1, Chapter 3, Paragraph 3-22 to require copies of closing attorneys' disbursement sheet and checks issued at closing (SIR FY07-003)

Systemic Implication Report (SIR) number FY07-003 proposes that the HUD Handbook 4000.4 REV-1, Chapter 3, Paragraph 3-22, be appended to require the following list of documents be maintained in the Federal Housing Administration (FHA) case binder: 1) a copy of the closing attorney's disbursement sheet; and 2) copies of the checks issued at closing.

HUD-OIG's Office of Audit advised that to require lenders to include these documents in the FHA case binder that is submitted to HUD after closing would be costly

(b) (5), (b) (7)(E)

proposed requirement would be a viable option if proposed with the use of electronic file storage, which eliminates the storage of additional paper and its cheaper.


(b) (5)

they believed its enactment would have no impact on decisions related to HUD's Home Mortgage Insurance Division. In addition, the Department responded that HUD has no control over closing attorneys and the proposed change would require approval of the Office of Management and Budget.

As a result of the aforementioned nonoccurrence, CID will not pursue this matter further. Thank you for your interest in this matter and for referring this matter to CID for consideration.

# SYSTEMIC IMPLICATIONS REPORT

U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
*Office of Investigation*

<b>DISTRICT/OFFICE:</b>  Criminal Investigations Division, GIP	<b>DATE :</b>  January 13, 2009
<b>A. Description of Systemic Deficiency:</b>  Based on investigations and audits conducted into single family loan origination fraud on loans insured by the Federal Housing Administration (FHA), it has been determined that loan officers identifying information is not collected by HUD.	
<b>B. Suggestions to Correct Deficiency:</b>  HUD must implement policy and procedures that require all Direct Endorsement lenders to input the names of Loan Officers associated with each FHA case binder into the "Neighborhood Watch" system. Create assigned loan officer identification numbers that will also be used in the "Neighborhood Watch" system to help identify Loan Officers.  Including this information in "Neighborhood Watch" will expedite Investigations and Audits which would help prevent and re-coup lost FHA funds to the Department. It will also bring heightened awareness in the Real Estate industry which may deter future instances of fraud.	
<b>C. Investigative Techniques:</b>  The following are some investigative techniques that are being used by HUD OIG in the investigation of fraud, waste and abuse within the FHA single family loan program:  (b) (7)(E) 	

Distribution: 1  Case File  2 AIGI  3 OMAP  4 Other:

(b) (7)(E) (g)



U.S. Department of Housing and Urban Development

**Office of Inspector General**

451 Seventh Street, SW

Washington, DC 20410-4500

Phone: (202) 708-0390 Fax: (202) 708-1354

October 16, 2008

MEMORANDUM FOR: (b) (7)(C)

FROM: (b) (7)(C)

SUBJECT: Systemic Implications Report (SIR)  
HUD-OIG File No. FY07-005

In February 2007, Region 2 submitted a Systemic Implication Report (SIR) for review and consideration by this office, which in summary, detailed the following:

A significant program deficiency was detected during an investigation into the Asset Control Area (ACA) sale of 10 Real-Estate owned (REO) properties from HUD to a for-profit entity at approximately \$1 million less than Fair Market value.

The investigation disclosed that the ACA sale was negotiated and recommended by a

(b) (7)(C)

negotiated at Headquarters without the input, consultation, or participation of the Housing Program Officer (HPO), the Program Support Division, the Case Review Committee, and Headquarters Case Oversight Committee.

The SIR recommends that the SOP should be codified in a HUD handbook and should include that before any Request for Authorization or Approval of an ACA Agreement is approved by the Assistant Secretary, the signatures of the HPO, members of the Case Review Committee (including the Director, Home Ownership Center, and REO Director), and members of the Headquarters Case Oversight Committee, be obtained, indicating their concurrence or non-concurrence with the request.

On July 16, 2007, (b) (7)(C)

(b) (7)(C)

responded as follows:

1. In January 2007, suspended further transfers of properties to NYC ACA for use as "seed money." In January 2007, NYC-Housing Preservation and Development (HPD) required to establish an escrow account tying the "seed money" proceeds to the ACA property rehabilitation, and required the NYC-HPD to submit a revised development and project financing plan.
2. In March 2007, developed revised strategy to "jump start" NYC ACA.
3. In May 2007, initiated a re-examination of the cost associated with the NY ACA program and its viability with fewer available properties for the ACA program due to fewer real estate owned properties in a HUD's inventory.
4. In May 2007, staffed Director, Office of Single Family Asset Management.
5. In May 2007, began action plan to improve administrative oversight and control of the ACA program to be completed by September 2007.
6. In July 2007, the Asset Control Areas proposed rule, which was initiated November 2006, was placed into departmental clearance.

On October 15, 2008, this office was advised, the Asset Control Areas proposed rule, which specifically addresses the items raised in this SIR, was approved by the Office of Management and Budget in August 2008.

(b) (7)(C)





U.S. Department of Housing and Urban Development

**Office of Inspector General**

451 Seventh Street, SW

Washington, DC 20410-4500

Phone: (202) 708-0390 Fax: (202) 708-1354

February 26, 2008

**MEMORANDUM FOR:**

(b) (7)(C)

(b) (7)(C)

**FROM:**

**SUBJECT:** Systemic Implication Report  
Control Weaknesses within the Government National  
Mortgage Association (GNMA) Mortgage-Backed Securities (MBS)  
Program

Based on a review of the Mortgage-Backed Securities (MBS) program and four current investigations being conducted by the U.S. Department of Housing and Urban Development (HUD), Office of the Inspector General (OIG), this office has examined systemic issues and identified six internal control weaknesses and/or deficiencies within the Government National Mortgage Association's (GNMA), MBS program that are documented in the attached Systemic Implication Report. In order to minimize Issuer defaults and prevent additional financial losses to GNMA and the Federal Housing Administration, HUD-OIG requests GNMA promptly take action to remedy these concerns.

The MBS program's internal control weaknesses and/or deficiencies primarily result from GNMA management's deviation from standards required in section 306(g) of the National Housing Act (12 USC 1721(g)) and failure to adhere to GNMA policies and procedures regarding non-compliant issuers. Specifically, GNMA's Office of MBS, Single Family/Manufactured Housing Division, and MBS Monitoring Division consistently employed methodologies of addressing non-compliant Issuers that favored GNMA business practices instead of safeguarding investor securities. Issuers were allowed to remain in the MBS program despite prolonged periods of time where GNMA management knew the Issuer demonstrated an inability and/or unwillingness to comply with policies and procedures, including failure to make timely Principal and Interest payments to investors; large number of loans remaining in Issuer portfolios that were uninsured; and GNMA authorized troubled Issuers additional commitment authority despite their marginal performance. Additionally, the investigations revealed instances where GNMA MBS program employees failed to timely report the extent of Issuer non-compliance to its senior officials.

The management of GNMA holds the overall burden of ensuring compliance with all agency and government policies, regulations, and laws. It is clear that GNMA management's focus on its business practices and bottom line profits is adversely affecting the integrity of its MBS program. It is our opinion appropriate remedial or disciplinary action must be taken against certain GNMA staff who failed to enforce these policies to ensure that such lapses in oversight do not compromise the integrity and efficiency of the MBS program. Further, GNMA should notify all Issuers that fraud committed against GNMA and/or the Federal Housing Administration is a criminal violation of Federal law, and such action will be investigated by HUD OIG, and may be referred to the United States Department of Justice for prosecution and/or civil action.



# SYSTEMIC IMPLICATIONS REPORT

U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
*Office of Investigation*

DISTRICT/OFFICE:	DATE :
Criminal Investigations Division, GIP	February 26, 2008
A. Description of Systemic Deficiency:	
<p>Based on a review of the Government National Mortgage Association (GNMA) Mortgage-Backed Securities (MBS) Program, and the review of four current investigations<sup>1</sup> being conducted by the Office of Investigation, this office has examined the systemic issues and identified weaknesses and/or deficiencies within the GNMA MBS Program that require prompt remedy by GNMA to prevent additional harm to the MBS program, and to eliminate systemic vulnerabilities. The following program weaknesses and/or deficiencies have been identified:</p> <ol style="list-style-type: none"><li>1. GNMA allows Issuers to submit ineligible loans into MBS pools that are in the process of obtaining insurance, thereby allowing uninsured loans into MBS pools in violation of Section 306(g) of the National Housing Act (12 United States Code (USC) 1721(g)).</li><li>2. Defective loans<sup>2</sup> (in some instances defective due to fraud) have been issued into GNMA MBS pools, and have been allowed to remain in the pools for extended periods.</li><li>3. Delinquent (past due and/or in foreclosure) loans have been allowed to remain in GNMA MBS pools for extended periods.</li><li>4. Loans have remained in GNMA MBS pools even after the loans have been terminated (paid-off).</li><li>5. GNMA program officials have not dealt effectively with Issuers who demonstrate signs of instability, or who fail to meet program requirements.</li><li>6. GNMA is subject to significant exposure after they are required to take over and service the MBS portfolios for those Issuers who have been defaulted.</li></ol>	

<sup>1</sup> Details relative to only two of the cases are provided herein.

<sup>2</sup> A defective loan is a loan that (i) cannot be insured or guaranteed by an agency of the Federal Government under a provision named in Section 306(g) of the National Housing Act, (ii) that has been refused by the insuring or guaranteeing agency, (iii) for which such insurance or guaranty has been withdrawn, or (iv) that does not comply with the terms of the related securities.

B. Suggestions to Correct Deficiency:

The following recommendations are being made as a means of addressing each of the respective weakness and/or deficiencies.

**1. GNMA Allows Issuers to Submit Ineligible Loans into MBS Pools in Violation of Section 306(g) of the National Housing Act (12 USC 1721(g))**

It has been noted that GNMA allows loans, which have not yet been insured but are in the process of being insured, to be issued into MBS pools. GNMA allows this practice despite the requirement of 12 USC 1721(g), which states in part, "... [GNMA] is authorized, upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal of and interest on such trust certificates or other securities as shall (i) be issued by the corporation under section 1719 (d) of this title, or by any other issuer approved for the purposes of this subsection by the Association, and (ii) be based on and backed by a trust or pool composed of mortgages which are insured under this chapter, or which are insured or guaranteed under the Servicemen's Readjustment Act of 1944, title V of the Housing Act of 1949 [42 U.S.C. 1471 et seq.], or chapter 37 of title 38, or which are guaranteed under title XIII of the Public Health Service Act [42 U.S.C. 300e et seq.]; or guaranteed under section 1715z-13a of this title."

Relative to allowing loans, which have not yet been insured but are in the process of being insured, to be issued into MBS pools, GNMA has advised that they are currently operating pursuant to a 1975 opinion rendered by then U.S. Department of Housing and Urban Development (HUD) (b) (7)(C). In this opinion stated, in part, "There is no legal objections to the practice followed by GNMA because of the practical business necessities of the program even though there is a technical non-compliance with the statute for a short period of time. The practice permitted by GNMA, however, must be limited only to those mortgages for which the mortgagee has an outstanding firm commitment under which the mortgage is awaiting the issuance of the certificate of insurance."

GNMA needs to revise its practice of allowing uninsured loans to be issued into MBS pools in order to comply with the statute, or alternatively, seek legislation which authorizes the current practice of allowing uninsured loans to be issued into MBS pools. If a legislative change is enacted, GNMA's current practice of allowing uninsured loans to remain in MBS pools for extended periods should be abandoned, and instead adopt a policy which allows for a much shorter period of time during which uninsured loans are allowed to remain in MBS pools.

**2. Defective Loans Have Been Issued Into GNMA MBS Pools, and Have Been Allowed to Remain in the Pools for Extended Periods**

Issuers must be an approved Federal Housing Authority (FHA) mortgagee (or a Freddie Mac/Fannie Mae approved mortgage servicer), and through the U.S. Department of Housing and Urban Development's Direct Endorsement and Lender Insurance programs, the

mortgagee underwrites and closes the mortgage loan without prior HUD review or approval of the loan. Because of this, GNMA needs to improve its loan matching and enforcement practices to ensure the soundness of the loans issued into MBS pools.

GNMA and FHA entered into a Memorandum of Understanding (MOU) in February 2002 (**Attachment 2**), wherein they agreed to a major administrative change dealing with the process to be followed when GNMA, as holder of record, submitted claims to FHA. The change eliminated the requirement that GNMA provide the paper Mortgage Insurance Certificate (MIC) when filing a claim for mortgage insurance benefits. Instead, the agreement allowed GNMA to rely upon FHA's SFIS, or successor system, as confirmation that the mortgage had effective mortgage insurance and that a claim for mortgage insurance would be paid. This change allowed GNMA to eliminate the requirement that Issuers provide to a third-party trustee (Document Custodian) a paper MIC in order to meet GNMA eligibility requirements. Rather, Issuers only needed to obtain verification that the loans were listed within FHA's SFIS in order to consider the loan eligible to remain in GNMA MBS pools.

The MOU was amended with an Addendum in late 2003 (**Attachment 3**). The addendum built upon FHA's data integrity improvements by allowing GNMA to rely on SFIS, or successor system, when determining whether a loan was insured, and allowed for GNMA to directly monitor the insurance status based on SFIS. Under the Addendum, FHA agreed that any and all active loans, for which GNMA was the holder of record in SFIS, or successor system, would be deemed as insured for the life of the loan. In order for the loan to be considered as insured, GNMA would ensure that certain data elements in GNMA's master file matched against SFIS.

GNMA has implemented two and five element monthly data matches; loans not matched during the first matching attempt are re-cycled through the process each month thereafter until a match occurs. This matching process, however, has proven insufficient to fully screen out ineligible loans.

Our review has revealed that this loan matching process needs to be strengthened and improved. GNMA needs to work to ensure the loan matching process between GNMA and FHA adequately performs the validation process. GNMA needs to work to correct data integrity issues, and data structure issues, to ensure data compatibility and integrity between GNMA's data and FHA's data.

GNMA should also establish a robust review process to examine all loans that fail to match on the second monthly match attempt. Allowing loans to continue from month to month until a match occurs allows ineligible loans to remain for unacceptable periods of time in GNMA pools. GNMA account executives must review individual loan files of those loans that fail to match by the second monthly match, and determine the reason for the failure of the loan to match and determine if an Issuer is submitting faulty, improperly processed, or fraudulent loans, and/or loans which do not meet insurance requirements.

Further, our review identified a practice by GNMA program officials of failing to aggressively pursue action against an Issuer when they failed to meet loan matching

requirements for the loans they submitted to MBS pools. GNMA needs to ensure that they strictly adhere to their policies and procedures for referring and taking action against Issuers who fail to perform and/or meet the prescribed thresholds for matching percentages as compared to their peers (other Issuers). GNMA also needs to ensure they address and resolve loan matching issues with the Issuers in a timely fashion.

(b) (7)(C) participation in the GNMA MBS program has revealed that there are currently, approximately 176 uninsured loans in GNMA MBS pools, and the first uninsured loan was submitted by [REDACTED] to a MBS pool in April of 2004. These 176 loans represent approximately \$24 million in potential losses to GNMA and/or FHA. Investigation also identified that GNMA program officials were well aware of [REDACTED] poor performance, however, failed to take appropriate action allowing the losses to accumulate before they finally took enforcement action and found [REDACTED] in default in October 2006. Documentation reflects that at least as early as mid-July 2005, GNMA was aware of numerous issues related to [REDACTED] participation in the MBS program, however, failed to take action. GNMA's failure to take prompt action between July 2005 and October 2006 resulted in [REDACTED] issuing approximately an additional 231 loans into 24 MBS pools totaling approximately \$34 million.

In addition, GNMA should complete a thorough review of all forms Issuers and other program participants submit to GNMA to ensure they contain strong and consistent certification language. The language on the forms should include clear warnings to those executing and submitting them that failure to provide true and complete information may result in the imposition of criminal and civil liabilities, sanctions, and penalties, including fines and imprisonment. A review of the forms currently used revealed inconsistent or non-existent warnings.

### **3. Delinquent (Past Due and/or in Foreclosure) Loans Remain in GNMA Pools for Extended Periods**

GNMA should require removal of delinquent loans from MBS pools on a more stringent time-table. GNMA should change its current policies and procedures as set out in the GNMA Mortgage Back Securities Guide, Ginnie Mae 5500.3, Chapter 18, 18-3, which depending on pool issue date, allow delinquent loans to remain in the GNMA pools for 90 to 120 days, and reflects at that point the delinquent loans "warrant repurchase consideration," versus mandating repurchase. Because GNMA policy does not require repurchase, it appears GNMA program officials have a practice of accommodating Issuers and allowing them to maintain delinquent loans in pools for extended periods of time. A more stringent time-table for removal should be adhered to, such as following a strict rule that any delinquent loan which has not been brought current no later than 60 days after falling into delinquency, must be removed from the pool.

### **4. Loans Remain in GNMA Pools After Termination**

Loans have been identified in GNMA pools that have been terminated (either the loan has been paid-off, or an FHA insurance claim has been paid on the loan); however, such loans

have remained in GNMA MBS pools even after their termination.

In OIG's investigation into (b) (7)(C) participation in the GNMA MBS program, it has been alleged that the owner of (b) (7)(C) did not disclose to GNMA information regarding terminated loans, and thereby was able to retain the funds obtained from the terminated loans. Investigation has revealed that there are currently 181 uninsured loans which were issued into MBS pools by (b) (7)(C) and the first uninsured loan was submitted by (b) (7)(C) to a MBS pool in April of 2003. These 181 loans represent approximately \$22 million in potential losses to GNMA and/or FHA.

GNMA has developed a process to check the FHA insurance status of all loans within MBS pools on an annual basis. This process looks to identify loans within MBS pools which are insured, as well as to identify loans within the pools which are reflected as terminated within FHA's system. It is recommended GNMA promptly establish a monthly process to identify terminated loans, in lieu of the annual process. Further, GNMA needs to develop controls to identify when an Issuer attempts to defraud the program by failing to report when a loan has been paid-off, and when FHA has paid a claim on the loan. Such a process will assist in identifying loans that have been terminated within FHA, but are still active loans within MBS pools. Additionally, instituting controls such as a more rigorous computer matching process, Issuer/Lender monitoring efforts, requiring accountability relative to information provided/certified to within the pool documents, and providing clear consequences within the MBS Guide and Guaranty Agreement, should be undertaken.

GNMA should refer all instances of suspected or potential fraud to the Office of Inspector General, Office of Investigation, Criminal Investigation Division, for review for possible investigation. In addition, GNMA should work with the Enforcement Center, FHA, and OIG to consider civil and administrative proceedings, as well as suspension and debarment proceedings, against Issuers that substantially fail to comply with GNMA regulations or have been found to have engaged in fraud.

##### **5. GNMA Fails to Deal Effectively with Issuers Who Demonstrate Instability, or Who Fail to Meet Program Requirements**

GNMA program officials have demonstrated a practice of failing to deal effectively with Issuers who have demonstrated instability, or a failure to meet or comply with program requirements. This practice has resulted in significant exposure to the MBS program, as well as FHA. In some instances, GNMA program officials have allowed Issuers to remain in the MBS program even after protracted periods of time have lapsed wherein the Issuer has demonstrated an inability, or unwillingness, to meet or comply with program requirements.

In the (b) (7)(C) investigation documentation clearly reflects that GNMA program officials were well aware that (b) (7)(C) demonstrated poor performance relative to pool certifications, loan matching for insurance and delinquencies, and timely payment of principal and interest payments to investors, over a number of years. Nonetheless, GNMA program officials continually approved additional commitment authority for (b) (7)(C). This practice posed significant risk to the MBS program, and the risk was realized after GNMA ultimately

found [REDACTED] in default and became responsible for servicing the [REDACTED] portfolio. When GNMA became responsible for servicing the [REDACTED] portfolio, they inherited the responsibility for a portfolio totaling approximately \$46 million dollars. Additionally, since inheriting that portfolio, GNMA has been responsible for making monthly pass-through payments to investors in the hundreds of thousands of dollars each month.

GNMA program officials need to ensure that they strictly adhere to their policies and procedures for referring and taking action against Issuers who fail to perform. They need to also ensure that strong and clearly defined policy is created and followed relative to Issuer approval, Issuer monitoring and the approval of Issuer commitment authority. Further, program officials need to ensure they address and resolve Issuer performance issues in an aggressive and timely manner.

Given the inherent risk, it is also suggested that GNMA increase the minimum adjusted net worth requirements Issuers must meet in order to participate in the MBS program.

It is apparent that in an effort to retain business partners (Issuers), GNMA fails to rigorously enforce Issuer standards, thus weakening their ability to identify and root out fraud and abuses committed within the program by Issuers, and others associated with the program. GNMA needs to recognize that such practices leave the MBS program vulnerable to abuse.

#### **6. GNMA's Exposure After an Issuer is Defaulted**

In instances where GNMA has defaulted an Issuer, GNMA has become responsible for the continued servicing of all loans in that Issuer's portfolio. This has resulted in significant exposure to GNMA, as GNMA becomes responsible for servicing portfolios containing non-performing (defective/delinquent/non-insured) loans. According to GNMA policies and procedures effective and/or delinquent loans ultimately must be liquidated from the portfolios. GNMA becomes responsible for these loans, thus becoming responsible for the liquidation of millions of dollars of defective and/or delinquent loans from portfolios.

In an inflationary real estate market, rising property values have allowed GNMA to cover potential losses on such loans; however, in a deflated and/or depressed real estate market, as currently exists, GNMA will have to absorb losses directly. For this reason, GNMA program officials need to adopt a stricter stance relative to Issuers who fail to meet program policies and requirements, and make sound determinations earlier as to an Issuer's continued participation in the MBS program. In order for GNMA to exercise earlier judgments about Issuer performance they need to improve their matching and monitoring practices.

Both (b) (7)(C) [REDACTED] have been defaulted by GNMA from the MBS program. As a result of the defaults, GNMA has become responsible for servicing both portfolios; portfolios valued at approximately \$450 million and approximately \$46 million respectively.

The following investigative techniques are being used by HUD OIG in the investigation of fraud, waste and abuse within the GNMA MBS program:

(b) (7)(E)



(b) (7)(E)



(b) (7)(E)

Distribution: 1  Case File  2 AIGI  3 OMAP  4 Other: \_ \_



**SYSTEMIC  
IMPLICATIONS REPORT**

**U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
Office of Investigation**

<b>AGENT:</b> [REDACTED]	
<b>DISTRICT/OFFICE:</b> [REDACTED]	<b>DATE:</b> January 8, 2008
<b>A. Description of Systemic Deficiency:</b> <p>During a HUD/OIG investigation (b) (7)(C) it was determined that some employees/attorneys assigned to HUD, Office of General Counsel (OGC) frequently telework; however, they do not have access to HUD issued computers at their telework sites. In this case, (b) (7)(C) (b) (7)(C) forwarded an email from his official HUD email account to his personal email account which contained Personally Identifiable Information (PII). This is in violation of HUD's Information Technology Security policy, and [REDACTED] stated he did so not knowing the nature of the information contained in the document. [REDACTED] stated he frequently sends HUD work to his personal email account in order to work on it from his residence while teleworking. (b) (7) HUD issued computer is a desktop model and he does not have access to a laptop. As a result, Kesaris does not have access to a HUD computer at his residence.</p>	
<b>B. Suggestions to Correct Deficiency:</b> <p>If a HUD OGC employee has a need to work with sensitive data while teleworking, that employee should be provided with the tools necessary to conduct their work while ensuring the security of HUD's data. Consideration should be given to issuing these employees a second computer for their residence, or issuing them a laptop computer as their primary computer. If neither option is feasible, HUD OGC should coordinate with HUD's Chief Information Security Officer, Office of the Chief Information Officer (CIO), to discuss other possibilities to meet the needs of OGC while adhering to HUD's Information Technology (IT) security policies.</p>	
<b>C. Investigative Techniques:</b> <p>This investigation was initiated as a result of a findings identified during a Data Protection Assessment of the HUD network operations. During the assessment, a vendor working with Lockheed Martin identified multiple security issues regarding HUD's usage of the network and the email system. One of the issues identified during the assessment was the email sent by [REDACTED] containing PII data. The HUD OGC practice of allowing employees to work from home on personal computers was identified during the subsequent investigation through personal interviews of (b) (7) (C) and others.</p>	
<b>Distribution:</b> 1 <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other: __ _	

**SYSTEMIC IMPLICATIONS  
REPORT**

**U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
*Office of Investigation***

AGENT: (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)	DATE: June 4, 2008
A. Description of Systemic Deficiency: <p>The Good Neighbor Next Door (GNND) Sales Program was established on November 1, 2006, under 24 CFR Part 291, Disposition of HUD-Acquired Single Family Property; Good Neighbor Next Door Sales Program. The GNND Sales Program replaced HUD's Officer Next Door (OND) and Teacher Next Door (TND) Sales Programs. The purpose of the GNND Sales Program is to improve the quality of life in distressed urban communities by encouraging law enforcement officers, teachers, and firefighters/emergency medical technicians to purchase and live in homes in these communities at a discount. When HUD established regulations concerning the GNND Sales Program, they failed to include language that prohibited the occupants of the GNND properties from engaging in serious illegal activity or using the property for serious illegal activity. GNND Sales Program regulations only address two continuing obligations after purchase: (a) continue to own, and live in as his/her sole residence, the home purchased through the GNND Sales Program; and certify initially and once annually thereafter during and at the conclusion of the owner-occupancy term that he/she was at all times fully in compliance with paragraph (a) of this section. The omission of prohibiting illegal activity associated with these residences could allow program participants to be arrested for committing serious crimes and continue on the program. The situation described would contradict the original purpose of the program.</p>	
B. Suggestions to Correct Deficiency: <p>The deficiency described above could be corrected by including language in GNND Sales Program contracts that program participants who commit felonies or use the properties for felony activity are in violation of the program and require the participants to repay HUD the discounted amount of the home.</p>	
C. Investigative Techniques: (b) (7)(C)	
Distribution: 1 <input type="checkbox"/> Case File <input type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input type="checkbox"/> 4 Other: __ __	