OFFICE OF AUDIT
REGION 8
DENVER, CO

Utah Housing Corporation
West Valley City, UT

Federal Housing Administration's Preforeclosure Sale Program

2013-DE-1001

MAY 15, 2013

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Issue Date: May 15, 2013

Audit Report Number: 2013-DE-1001

TO: Charles S. Coulter, Deputy Assistant Secretary for Single Family Housing, HU

//**signed**//
FROM: Ronald J. Hosking, Regional Inspector General for Audit, Denver Region, 8AGA

SUBJECT: Utah Housing Corporation Did Not Always Properly Determine Borrower Eligibility for FHA's Preforeclosure Sale Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Utah Housing Corporation's approval of borrowers for FHA's Preforeclosure Sale Program.

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

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5872.

Office of Audit Region 8
1670 Broadway, 24th Floor, Denver, CO 80202
Phone (303) 672-5452, Fax (303) 672-5006
Visit the Office of Inspector General Web site at www.hudoig.gov.

May 15, 2013

Utah Housing Corporation Did Not Always Properly Determine Borrower Eligibility for FHA's Preforeclosure Sale Program

Highlights

Audit Report 2013-DE-1001

What We Audited and Why

We reviewed 39 Federal Housing Administration (FHA) claims submitted by Utah Housing Corporation, West Valley City, UT. Our objective was to determine whether the Corporation properly determined that borrowers were eligible to participate in FHA's Preforeclosure Sale Program. We selected the Corporation because it had more preforeclosure sales than regular foreclosures, placing it at the top of our risk assessment.

What We Recommend

We recommend that the Deputy Assistant Secretary for Single Family Housing require the Corporation to reimburse the U.S. Department of Housing and Urban Development (HUD) for the five ineligible claims paid plus lender incentive fees totaling $218,370. Also, we recommend that HUD review for Program eligibility the 32 claims totaling $1.5 million that were paid without proper support and require the Corporation to reimburse HUD for those without support plus $32,000 in lender incentive fees received. Additionally, we recommend that HUD require the Corporation to develop and implement policies and procedures to ensure proper determination of borrower eligibility before approval for the Program.

What We Found

The Corporation did not always properly determine that borrowers were eligible to participate in the Program. Of the 39 preforeclosure sales reviewed, it inappropriately approved three borrowers who had more than one FHA-insured loan and two borrowers who did not meet the definition of facing imminent default at the time of approval. Additionally, the Corporation did not independently verify expenses used in the financial analysis of these five borrowers plus an additional 32 borrowers. This condition occurred because the Corporation incorrectly believed that it was within Program guidelines when it approved borrowers and did not have all necessary controls in place. As a result, the FHA insurance fund paid out $213,370 for ineligible claims and the associated $5,000 in lender incentive fees, and $1.5 million for unsupported claims, with $32,000 for inappropriate lender incentive fees.

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BACKGROUND AND OBJECTIVE

The Federal Housing Administration (FHA) provides mortgage insurance on loans made by FHA-approved lenders. FHA mortgage insurance provides lenders with protection against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance.

Since being introduced as a national program in 1994, FHA's Preforeclosure Sale Program has helped thousands of borrowers avoid foreclosure and transition to more affordable housing. The Program allows borrowers who cannot make their mortgage payments, resulting from an adverse and unavoidable financial situation, to sell their home at fair market value. The sale proceeds satisfy the mortgage debt even if the proceeds are less than the amount owed. This option is appropriate for borrowers whose financial situation requires that they sell their home, but they are unable to do so without FHA relief because the gross recovery on the sale of their property is less than the amount owed on the mortgage.

FHA lenders must maintain supporting documentation to demonstrate a comprehensive review of the borrower's financial records and that the borrower did not have sufficient income to pay the mortgage. A lender may submit an FHA insurance claim and be compensated for the difference between the sale proceeds and the amount owed on the mortgage. In addition, FHA will pay lenders an incentive fee of $1,000 for each completed transaction.

Utah Housing Corporation was created in 1975 by Utah legislation to provide mortgage loans at reasonable interest rates for low- and moderate-income persons. The Corporation received approval on March 20, 1978, from FHA to be a government lender. According to the U.S. Department of Housing and Urban Development's (HUD) Single Family Data Warehouse database, the Corporation filed 313 preforeclosure sale claims between June 30, 2010, and September 30, 2012. Each claim compensated the Corporation for the difference between the sale proceeds and the amount owed on the mortgage, plus incentives earned by the Corporation, the borrower, or both. The Single Family Data Warehouse includes a collection of database tables allowing users to access Single Family Housing data on properties and associated loans, insurance, claims, defaults, and demographics.

Our audit objective was to determine whether Utah Housing Corporation properly determined that borrowers were eligible to participate in FHA's Preforeclosure Sale Program.

RESULTS OF AUDIT

Finding 1: Utah Housing Corporation Did Not Always Properly Approve Borrowers for the Preforeclosure Sale Program

The Utah Housing Corporation did not always properly determine that borrowers were eligible to participate in FHA's Preforeclosure Sale Program. This condition occurred because the Corporation incorrectly believed that it was within Program guidelines when it approved borrowers and did not have all necessary controls in place. As a result, the FHA insurance fund paid out $213,370 for ineligible claims, $1.5 million for unsupported claims, and $37,000 for inappropriate lender incentive fees.

The Corporation Did Not Properly Determine Eligibility

Of the 39 Program loan files reviewed, the Corporation did not properly determine that 37 borrowers were eligible to participate in the Program. It approved three borrowers who had more than one FHA-insured loan and two borrowers who did not meet the definition of facing imminent default. Further, it did not independently verify expenses used in the financial analysis of these five borrowers plus an additional 32 borrowers.

The Corporation incorrectly approved three borrowers who had more than one FHA-insured loan. Section B of Mortgagee Letter 2008-43 restricts the Program option to borrowers having only one FHA-insured loan. In two of the three cases, the borrower obtained a second FHA-insured loan before applying for the Program. In each case, the Corporation used both FHA-insured mortgage payments in the borrowers' financial analysis, but it did not verify whether FHA had insured the second mortgage. The third borrower obtained a second FHA-insured mortgage 2 weeks after being approved for the Program, making the borrower no longer eligible to participate. This borrower's file included a copy of the second loan's deed of trust; however, the Corporation did not verify whether FHA had insured the second loan.

The Corporation did not ensure that two borrowers faced imminent default at the time it approved the applications. Mortgagee Letter 2008-43, section A, allows lenders to exercise their discretion to accept applications from borrowers who are current but facing imminent default. Further, Mortgagee Letter 2010-04, Loss Mitigation for Imminent Default, defines an "FHA borrower facing imminent default" as an FHA borrower who is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or other hardship that will prevent him or her from making the next mortgage payment during the month it is due. The lender must document the basis for its decision that a payment default is imminent.

In one case, the borrower relocated for a graduate program starting in January of 2011, during which the borrower would not have an income. The borrower's application stated, "I have every intention of staying current on my payment and will have an income to do so until December [2010]." The Corporation approved the borrower for the Program in September of 2010. The borrower made the October and November mortgage payments and then missed the December payment to ensure qualifying for the Program. The second borrower received a letter in August of 2010, stating that the borrower's employment would be terminated in December of 2010. The Corporation approved the borrower in September, and the short sale closed in October of 2010, 2 months before the hardship occurred.

The Corporation did not independently verify all expenses used in the borrowers' financial analysis for 37 of the 39 files reviewed. Section D of Mortgagee Letter 2008-43 requires lenders to independently verify the borrowers' financial information regardless of how it is obtained. During its financial analysis, the Corporation used expense amounts claimed by the borrower without verifying them. All cases included amounts for utilities, insurance, medical bills, transportation, donations, or other family expenses that were not verified. Without verifying these expenses, the Corporation could not demonstrate that the borrowers' expenses exceeded their income, with the exception of two unemployed borrowers.

The Corporation Misunderstood the Requirements and Had Insufficient Controls

The Corporation incorrectly believed that it was within the Program guidelines when it approved borrowers for the Program. It believed that it met the intent of the Program by helping borrowers avoid foreclosure. However, it is required to follow the regulations in place when approving borrowers for the Program. In addition, the Corporation did not have controls in place to (1) ensure that a borrower had only one FHA loan, (2) determine whether the borrower truly faced imminent default, and (3) independently verify borrower expenses. The Corporation had a control to check the Credit Alert Verification Reporting System when reviewing the borrowers' application. However, it did not realize that the System does not generate all of the FHA-insured loans a borrower has. Additionally, if the borrower's application included expenses that the reviewer thought were customary for the family size, the Corporation did not require support for the expense.

FHA Paid Improper Claims

The FHA insurance fund paid out $213,370 for 5 ineligible claims, $1.5 million for 32 unsupported claims, and $37,000 for inappropriate lender incentive fees. Lenders receive a $1,000 per claim incentive for complying with all requirements of the Program's mortgagee letter. Since the Corporation did not meet all requirements for 37 of the claims reviewed, it was not entitled to receive the incentive fees. The schedule of Program deficiencies in appendix C shows the results of each Program file review.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

1A. Require the Corporation to reimburse HUD for the five claims paid totaling $213,370 and the associated $5,000 in lender incentive fees received.

1B. Review for Program eligibility the 32 claims paid without proper support totaling $1,507,699 and require the Corporation to reimburse HUD for those without support plus the associated $32,000 in lender incentive fees received.

1C. Require the Corporation to develop and implement policies and procedures to ensure proper determination of borrower eligibility before approval for the Program.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the Corporation's office at 2479 South Lake Park Boulevard, West Valley City, UT, between October 2012 and February 2013. The audit covered the period June 30, 2010, through September 30, 2012.

To accomplish our objective, we

- Interviewed Corporation staff, HUD staff, and program participants;
- Reviewed Federal regulations, HUD handbooks, and mortgagee letters;
- Reviewed the Corporation's policies and procedures;
- Reviewed the Corporation's preforeclosure sale case files; and
- Reviewed the Corporation's loan servicing records.

During the audit period, the Corporation closed 313 preforeclosure sales, resulting in claims totaling more than $16 million. Of the total preforeclosure sales, there were 39 sales that closed after the borrower had missed three or fewer payments. We reviewed all 39 of these loan files with claims totaling almost $1.8 million.

We reviewed the Corporation's preforeclosure sale case files to evaluate whether the Corporation verified that the borrower

- Suffered an adverse and unavoidable financial hardship,
- Implemented a repayment plan if surplus income or assets existed,
- Accurately stated income and expenses,
- Faced imminent default if applicable,
- Was the owner-occupant of the subject property,
- Did not have another FHA-insured mortgage, and
- Was more than 30 days delinquent when the short sale closed.

We also reviewed the case files to determine whether the Corporation verified that (1) the mortgage payoff amount exceeded the "as-is" fair market value of the home, (2) the home was listed for sale at no less than the appraised "as-is" fair market value, and (3) the sale generated the minimum net sale proceeds required by the Program.

We used reports obtained from HUD's Single Family Data Warehouse database as background information for our review. Specifically, we used the reports to identify preforeclosure sales that closed during the audit period, the number of payments missed, and the associated claim amounts. However, we did not rely on these data for our conclusions. All conclusions were based on additional review performed during the audit.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls over reviewing borrower qualifications to participate in the Preforeclosure Sale Program.

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 Deficiency

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

- Utah Housing Corporation did not have adequate policies and procedures in place to ensure that it properly determined borrower eligibility to participate in the Preforeclosure Sale Program.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$218,370	
1B		$1,539,699

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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

UTAH HOUSING CORP
"We're housing Utah"

2479 S. Lake Park Blvd. West Valley City, UT 84120
P 801.902.8250 800.344.0452 F 801.902.8303 www.utahhousingcorp.org

Mortgage Servicing

Ronald J. Hosking, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit Region 8
1670 Broadway, 24th Floor
Denver, Co 80202

May 2, 2013

Dear Mr. Hosking:

Utah Housing Corporation (UHC) values its relationship with the U.S. Department of Housing and Urban Development (HUD). As a state housing agency, our mission naturally aligns with HUD's mission to "create strong, sustainable, inclusive communities and quality affordable homes for all." The Discussion Draft Audit Report ("Report") issued by the OIG on April 19, 2013 accurately indicates UHC's partnership with HUD began in 1978 and since that time UHC has worked diligently to be compliant with HUD program requirements. UHC trains its staff regularly to understand HUD's mortgagee letters and employs vigorous controls to ensure accurate and effective implementation of program guidelines found therein.

In addition, staff members work diligently with UHC homeowners to review their financial situations and ensure the correct loss mitigation program is utilized, pursuant to HUD guidelines. UHC's Loss Mitigation Department has developed a robust preforeclosure sale (PFS) application and requires homeowners to document their income and expenses. A loss mitigation file is compiled, including but not limited to: the borrower's application, bank statements, paystubs, credit reports, Neighborhood Watch and CAIVRS information and any other documents that may be needed for financial verification. Additionally, staff requires supporting documentation if an expense on the borrower's loss mitigation application appears unreasonable. Staff members live in the same neighborhoods as our homeowners, giving UHC's loss mitigation counselors a unique understanding of our borrower's living expenses. Although not perfect, UHC has serviced its portfolio of FHA loans very well over the past 17 years because of our commitment to the homeowners as well as to HUD.

Finding 1A – Borrower's with more than 1 FHA Loan

The Report states that UHC approved three borrowers for the PFS program who had more than one FHA-insured loan. UHC disagrees with the OIG's penalty recommendation. UHC agrees the three loans were approved to participate in the PFS program. Additionally, the Report correctly states UHC utilized CAIVRS to assess the borrower's eligibility for the PFS program. In all three cases the borrowers

Ref to OIG Evaluation	Auditee Comments

Comment 1

were not listed in CAIVRS. PFS program approval was in accordance with HUD guidelines as described on page 8 of ML 2000-05, "The Credit Alert Interactive Response Systems (CAIVRS) must be used to assist in this determination, prior to use of any of the loss mitigation options." Furthermore, the use of CAIVRS has been emphasized in trainings held by HUD staff as the mechanism for determining whether a borrower has multiple FHA-insured loans.

- 521-7593680: The credit report ordered 10/6/2011 did not contain information regarding the new mortgage. UHC staff requested documentation to verify the mortgage expense. The borrower sent an account statement, statement date 9/1/2011, from GMAC Mortgage. The first payment due date for the new loan was 10/1/2011. The statement contained no information regarding loan type. The credit report would not have picked up the new debt as the loan was just closed. CAIVRS did not list the borrower, providing no indication of multiple FHA insured loans.
- 521-6760787: The credit report ordered on 10/14/2010 did not contain information regarding the new mortgage. UHC staff requested documentation to verify the mortgage expense. UHC acknowledges that the Deed of Trust provided as payment documentation indicated the new loan type by the FHA case number. However, CAIVRS did not list the borrower and staff used this information, following established HUD protocol found in Mortgagee Letter 2000-05, to determine eligibility. UHC has updated its loss mitigation application requesting loan type information from the borrowers and has updated processes for staff to review credit reports for mortgage type in addition to CAIVRS.
- 521-7375951: UHC acknowledges that information on the credit report did indicate that the new mortgage was FHA insured. However, CAIVRS did not list the borrower and staff used this information, following established HUD protocol found in Mortgagee Letter 2000-05, to determine eligibility. UHC has updated its loss mitigation application requesting loan type information from the borrowers and has updated processes for staff to review credit reports for mortgage type in addition to CAIVRS.

Comment 2

Finding 1B – Imminent Default

The Report cites two loans as ineligible for the PFS program due to non compliance with imminent default requirements. UHC disagrees with this assessment, as well as OIG's recommended penalty. As noted in the Report, UHC obtained documentation from each borrower regarding their employment termination and the circumstances requiring the sale of their homes. OIG auditors cite HUD regulations as to their interpretation of "imminent default" but fail to include guideline stating the loan must be 30 days delinquent at time of closing. ML 2000-05 states, "Lenders may exercise their discretion to accept applications from borrowers who are facing imminent default, but by the time the pre-foreclosure sale is completed, the loan must be in default." This qualification indicates the homeowner is not required to be delinquent at time of PFS program approval. Additionally, this excerpt

OIG Evaluation of Auditee Comments

Ref to OIG Evaluation | **Auditee Comments**

from ML 2000-05 further indicates the borrower may be "facing" imminent default, not "in" imminent default.

Comment 3

- Both borrowers provided documentation of impending job loss.
- Both borrowers were approved for the PFS program as they were facing imminent default.
- By making payments up to the time of job loss, both claims submitted to HUD reduced the claim amount to the FHA insurance fund.
- Both borrowers were 30 days delinquent when the sale closed, in compliance with HUD guidelines.

Finding 1C – Failure to Independently Verify Expenses

The Report notes that "the Corporation did not independently verify expenses used in the borrower's financial analysis" of 37 of the 39 loans reviewed. UHC disagrees with this assessment, as well as OIG's recommended penalty.

Comment 4

- UHC pulls credit reports, this is an industry standard, to independently verify borrower expenses.
- UHC staff reviews bank statements, this is an industry standard, to independently verify expenses.
- UHC staff has a clear understanding of Utah living expenses, such as food and utilities.
- ML 2000-05, page 44, advises the mortgagee to use a borrower submitted financial statement, a credit report, and income/expense verification to ascertain "the borrower's inability to repay the debt". UHC utilizes the bank statement for income/expense verification and staff requests additional documentation, such as medical bills or garnishments, when expenses from the borrower submitted financial statement exceed expected amounts.

Utah Housing Corporation is committed to ensuring compliance with HUD guidelines. Staff training is on-going and processes are continually being reviewed to accomplish this goal.

Respectfully,

Amy White

Amy White
VP, Mortgage Servicing

Cc: Grant S. Whitaker, President and CEO
Jonathan A. Hanks, Senior Vice President and COO

OIG Evaluation of Auditee Comments

Comment 1 CAIVRS is a Federal government database of delinquent Federal debtors. It can be used to check if a borrower has delinquent debt, however this system does not generate all debt that a borrower possesses. The Corporation might use other evidence provided by the borrower, such as the loss mitigation application, credit report, and deed of trust, and request the settlement statement from any other loans a borrower indicated.

Comment 2 We agree to adding additional questions to the loss mitigation application to inquire about other loan types a borrower has. However, we did not review the updated application.

Comment 3 We disagree that the borrowers were facing imminent default for FHA case numbers 521-6388262 and 521-6557107 at the time of application approval. HUD defines a "borrower facing imminent default" as an FHA borrower who is experiencing a hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due. These borrowers did not experience a hardship for over 2 months after Program approval. Therefore, the hardship did not prevent the borrower from making their next month's mortgage payment as they had yet to experience the hardship.

Comment 4 Mortgagee Letter 2008-43, section D, requires lenders to independently verify the borrowers' financial information regardless of how it is obtained. The Corporation staff's discretion does not take the place of verification by an independent third party.

Appendix C

SCHEDULE OF PREFORECLOSURE SALE DEFICIENCIES

Sample number	FHA case number	Claim amount	Payments missed	More than one FHA loan	Not in imminent default at approval	Unverified expenses
1	521-6419744	$54,584	1			x
2	521-6545196	$9,198	1			x
3	521-6335819	$42,959	1			x
4	521-6388262	$42,241	1		x	x
5	521-6478380	$51,896	1			x
6	521-6749703	$31,905	1			x
7	521-6871164	$34,975	1			x
8	521-7933905	$14,849	1			x
9	521-6482225	$51,560	1			x
10	521-6493240	$72,366	1			x
11	521-6314247	$30,553	2			x
12	521-6330840	$18,961	2			x
13	521-6333026	$43,584	2			x
14	521-6360366	$103,049	3			x
15	521-6361927	$59,534	2			x
16	521-6374076	$56,241	3			x
17	521-6398282	$40,582	2			x
18	521-6401448	$67,974	3			x
19	521-6408735	$46,025	3			x
20	521-6423699	$63,227	3			x
21	521-6433037	$33,535	2			x
22	521-6472082	$46,689	2			x
23	521-6480390	$71,057	3			x
24	521-6506627	$72,121	2			x
25	521-6557107	$27,104	2		x	x
26	521-6587217	$66,304	3			x
27	521-6717434	$37,073	2			x
28	521-6720491	$59,436	2			x
29	521-6730946	$37,533	2			x
30	521-6760787	$69,653	2	x		x
31	521-6800951	$30,521	2			x
32	521-6807829	$49,558	2			x
33	521-6812371	$44,022	3			x
34	521-6819681	$36,419	3			x
35	521-7298396	$28,227	2			x
36	521-7375951	$47,639	3	x		x
37	521-7563637	$30,609	3			x
38	521-7569719	$41,094	3			x
39	521-7593680	$26,733	3	x		x
Total		$1,791,590		3	2	39
		($70,521)	Claims for two eligible loans (dark blue highlight) - sample #9 and #12			
		($144,025)	Claims having more than one FHA loan - sample #30, #36, and #39			
		($69,345)	Claims not in imminent default at approval date - sample #4 and #25			
		$1,507,699	Total for 32 unsupported loans			

Appendix D

CASE NARRATIVES

The Corporation approved the following ineligible borrowers for the Preforeclosure Sale Program. The first two borrowers below were not facing imminent default, and the last three borrowers had more than one FHA-insured loan, both of which are not allowable under the Program. In addition, the Corporation did not obtain supporting documentation to independently verify each of the borrowers' reported expenses; therefore, it did not satisfy the requirement of a comprehensive analysis of the borrower's finances.

Sample number 4
FHA case number: 521-6388262
Claim amount: $42,241
Settlement date of preforeclosure sale: January 7, 2011

The borrower's application, dated August 23, 2010, said that the borrower would be moving to attend a graduate program. The application stated, "I will not be working at all starting January 2011… I have every intention of staying current on my payment and will have an income to do so until December." The Corporation approved the borrower for the Program on September 22, 2010, although the requirement says that to participate, a borrower needs to be facing imminent default. HUD defines a "borrower facing imminent default" as an FHA borrower who is experiencing a hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due. This borrower did not meet this definition at the time of approval as the borrower was able to make the October and November mortgage payments after approval and the hardship event did not take place for more than 3 months after the borrower was approved for the Program.

Sample number 25
FHA case number: 521-6557107
Claim amount: $27,104
Settlement date of preforeclosure sale: October 7, 2010

The file included a letter, dated August 5, 2010, from the borrower's employer stating that the borrower would be laid off on December 1, 2010. The Corporation approved the borrower for the Program on September 17, 2010, although the requirement says that to participate in the Program, a borrower needs to be facing imminent default. HUD defines a "borrower facing imminent default" as an FHA borrower who is experiencing a hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due. Therefore, the borrower did not meet this definition when the Corporation approved the borrower because the hardship event, being laid off, did not take place until 2½ months after the borrower was approved for the Program. Further, the short sale took place almost 2 months before the hardship event occurred.

Sample number 30
FHA case number: 521-6760787
Claim amount: $69,653
Settlement date of preforeclosure sale: February 4, 2011

The borrower received notice of a job transfer to another office location within the company that the borrower worked for. The Corporation approved the borrower for the Program on October 25, 2010, and then the borrower obtained another home loan. The deed of trust in the file for the borrower's new home had an FHA case number of 521-7924302 listed on it. The requirements allow borrowers to have only one FHA-insured loan to participate in the Program. This borrower did not qualify since the borrower acquired a second FHA-insured loan before the short sale occurred.

Sample number 36
FHA case number: 521-7375951
Claim amount: $47,639
Settlement date of preforeclosure sale: June 1, 2012

The borrower relocated for a higher paying job since his spouse lost her job and was not able to find employment promptly. The credit report in the file for this borrower listed two FHA-insured loans, one opened on September 1, 2009, and the other opened on November 1, 2011. The Corporation approved the borrower for the Program on April 10, 2012, although the credit report listed both loans as FHA insured. Because the borrower had two FHA-insured loans, he did not qualify for the Program as the requirements allow participants to have only one FHA-insured loan.

Sample Number 39
FHA case number: 521-7593680
Claim amount: $26,733
Settlement date of preforeclosure sale: November 18, 2011

The borrower stated in his application, "I relocated from Logan to Tucson, AZ to accept a new position with the University of Arizona. I have purchased a home in Arizona where I plan to permanently live and as such I am unable to afford paying two mortgages." The borrower closed on the Tucson home on August 2, 2011, and applied for the Program on the Logan home on August 26, 2011. The Corporation approved the borrower for the Program on November 9, 2011, without ensuring that the borrower's mortgage on the Tucson home was not an FHA-insured loan, which it was. Therefore, this borrower did not qualify for the Program as the requirements allow participants to have only one FHA-insured loan and the borrower had two.